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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2004: budgetary surplus of \$346 million

There was a budgetary surplus of \$346 million in January 2004, up \$257 million from the restated surplus of \$89 million in January 2003. On a year-over-year basis, budgetary revenues were up \$284 million, while program expenses were up \$171 million. Public debt charges were \$144 million lower.

### April 2003 to January 2004: budgetary surplus of \$5.5 billion

The budgetary surplus is estimated at \$5.5 billion for the April 2003 to January 2004 period, down \$1.7 billion from the surplus of \$7.2 billion reported in the same period of 2002–03. On a year-over-year basis, budgetary revenues were up \$2.9 billion or 2.0 per cent, due primarily to the strength of personal and corporate income taxes, offset to some extent by lower excise taxes and duties. The overall weakness in revenue growth this year reflects the economic impacts of a number of domestic shocks that hit the Canadian economy in 2003. Program expenses were up \$6.0 billion, or 5.7 per cent, primarily due to new spending initiatives announced in recent budgets and higher operating costs. Public debt charges were down \$1.5 billion, or 4.8 per cent, reflecting lower interest rates.

### January 2004: budgetary results

The January 2004 budgetary surplus of \$346 million was up \$257 million from the \$89-million surplus reported in January 2003, as higher income taxes and lower public debt charges more than offset declines in other revenue sources and higher program expenses.

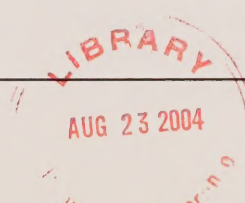
On a year-over-year basis, budgetary revenues, at \$14.6 billion, were up \$0.3 billion, or 2.0 per cent.

- Personal income tax revenues were up \$0.2 billion or 3.4 per cent, primarily reflecting growth in source deductions due to growth in employment and personal income.
- Corporate income tax revenues increased by \$0.3 billion, or 17.4 per cent, to \$1.9 billion due to an increase in gross receipts.
- Excise taxes and duties decreased by \$0.2 billion, or 6.2 per cent, with all components lower. Goods and services tax (GST) revenues declined \$0.1 billion, or 5.6 per cent. Although refunds were down sharply, gross receipts were also down for

both domestic sales and imported goods as a result of the weakness in retail sales in December. Customs import duties were down 19.3 per cent, while sales and excise taxes were down 3.3 per cent.

- Employment insurance (EI) premiums were down 2.2 per cent, as the reduction in premium rates (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) offset the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$0.1 billion or 13.2 per cent. This category of revenues is quite volatile on a monthly basis.

On a year-over-year basis, program expenses in January 2004, at \$11.3 billion, were \$0.2 billion, or 1.5 per cent, higher than in January 2003. Transfer payments were 0.5 per cent higher while other program expenses were up 3.8 per cent.





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Transfer payments were up 0.5 per cent, on a year-over-year basis, as increases in transfers to persons and other levels of government were largely offset by declines in subsidies and other transfers.

- Major transfers to persons, consisting of elderly and EI benefits, were up 3.3 per cent. Elderly benefits increased 4.0 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were up 2.3 per cent, primarily reflecting an increase in average benefits.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up 9.2 per cent. The year-over-year increase is primarily attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were up 7.4 per cent. Equalization entitlements, the largest component of fiscal transfers, are based on the official estimates as of September 2003. The February 2004 results will reflect the recently revised estimates for 2003–04.
- Subsidies and other transfers decreased \$0.3 billion, or 14.2 per cent, led by decreases in agricultural subsidies, transfers to Aboriginals and industrial and regional development transfers. The year-over-year decline primarily reflects the timing of payments.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were up 3.8 per cent, as increases in defence spending and all other departmental and agency expenses more than offset a decline in overall transfers to Crown corporations.

Public debt charges were down 4.6 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

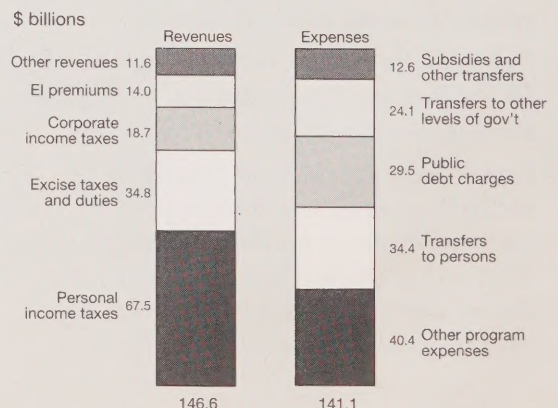
## April 2003 to January 2004: budgetary results

In the first 10 months of the 2003–04 fiscal year, there was a budgetary surplus of \$5.5 billion—a year-over-year deterioration of \$1.7 billion from the surplus of \$7.2 billion reported in the same period of 2002–03. The lower surplus reflects the impact on revenues of the weakness in economic activity due to a series of shocks that have hit the Canadian economy and the impact of spending initiatives and tax reductions announced in previous budgets.

On a year-over-year basis, budgetary revenues, at \$146.6 billion, were up \$2.9 billion, or 2.0 per cent.

- Personal income tax revenues were up \$1.1 billion, or 1.6 per cent, due to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. This was dampened by the impact of tax reduction measures announced in previous budgets. In addition, the growth in personal income tax revenues was affected by moderate growth in personal income. Personal income advanced 2.7 per cent in 2003, down from 3.3 per cent in 2002, reflecting the impact of the shocks that hit the Canadian economy in 2003. On balance, the growth in personal income taxes to date is in line with the growth in personal income, adjusted for the impact of the tax reduction measures announced in previous budgets.

### Revenues and expenses (April 2003 to January 2004)





- Corporate income taxes increased \$3.7 billion, or 24.8 per cent, due to the strong increase in corporate profits in 2003 and lower refunds. Corporate profits advanced 10.1 per cent in 2003, up from an increase of 4.3 per cent in 2002.
- Excise taxes and duties were down \$1.4 billion. On a year-over-year basis, GST revenues fell 5.6 per cent, reflecting declines in gross GST receipts from imports and weakness in gross receipts from domestic sales. In addition, rebates are up strongly, reflecting strong growth in residential construction and increased spending in the municipal, university and hospital sector. Sales and excise taxes were up 3.2 per cent, while customs import duties were down 9.7 per cent, reflecting lower imports subject to import duties.
- EI premiums were down 3.5 per cent, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were up 0.4 per cent.

On a year-over-year basis, program expenses in the April 2003 to January 2004 period were up \$6.0 billion, or 5.7 per cent, over the same period of 2002–03.

Transfer payments increased by \$3.9 billion, or 5.8 per cent.

- Major transfers to persons were up \$1.4 billion, or 4.3 per cent. Elderly benefits increased 4.9 per cent, while EI benefits were up 3.4 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$1.4 billion, or 6.1 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$1.1 billion, or 9.4 per cent, primarily reflecting the impact of budget measures and increased assistance to farmers.

Other program expenses increased by \$2.1 billion, or 5.6 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

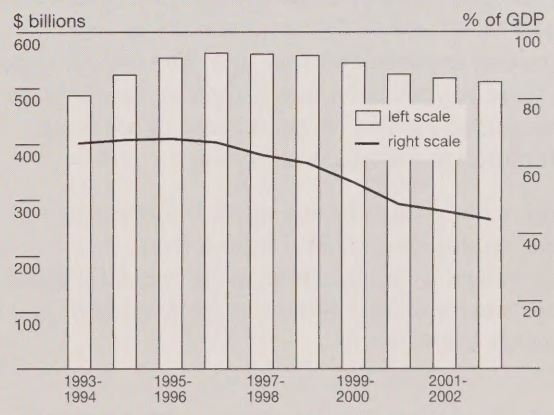
Public debt charges were down 4.8 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



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## Financial requirement of \$3.1 billion for April 2003 to January 2004

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$8.7 billion in the first 10 months of 2003–04, up \$0.3 billion from the requirement in the same period of 2002–03. Accounts payable, receivables, accruals and allowances increased by \$2 billion, primarily reflecting cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion). The liability for these trust funds was established in 2002–03 and affected the budgetary balance in that year. However, the cash payments to these trusts affect non-budgetary transactions and financial requirements this year. The overall impact of these payments on non-budgetary transactions was partially offset by an increase in net funds from foreign exchange activities.

With a budgetary surplus of \$5.5 billion and a net requirement of \$8.7 billion from non-budgetary transactions, there was a financial requirement of \$3.1 billion in the April 2003 to January 2004 period.

## Net financing activities down \$7.9 billion

This financial requirement of \$3.1 billion was financed by a reduction in the Government's cash balances. In addition, there was a decrease of \$7.9 billion in net financing activities, primarily

through a decrease in unmatured debt transactions, particularly in marketable bonds. As a result, cash balances declined by \$11 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of January 2004 stood at \$3.7 billion.

## Note to readers

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).

Table 1  
Summary statement of transactions

	January		April to January	
	2003	2004	2002-03	2003-04
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	14,363	14,647	143,754	146,629
Expenses				
Program expenses	-11,138	-11,309	-105,514	-111,535
Public debt charges	-3,136	-2,992	-31,024	-29,545
Budgetary balance (deficit/surplus) <sup>1</sup>	89	346	7,216	5,549
Non-budgetary transactions	2,332	2,227	-8,381	-8,686
<b>Financial source/requirement</b>	2,421	2,573	-1,164	-3,137
<b>Net change in financing activities</b>	-1,434	-6,186	-5,964	-7,897
<b>Net change in cash balances</b>	987	-3,613	-7,126	-11,034
<b>Cash balance at end of period</b>			4,822	3,666

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a surplus of \$18 million was recorded for January 2003.

Table 2  
Budgetary revenues

	January		Change	April to January		Change
	2003	2004		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,455	6,676	3.4	66,457	67,543	1.6
Corporate income tax	1,587	1,863	17.4	14,962	18,668	24.8
Other income tax revenue	562	469	-16.5	2,510	2,493	-0.7
Total income tax	8,604	9,008	4.7	83,929	88,704	5.7
Excise taxes and duties						
Goods and services tax	2,355	2,224	-5.6	25,333	23,902	-5.6
Customs import duties	254	205	-19.3	2,663	2,406	-9.7
Sales and excise taxes	749	724	-3.3	7,934	8,188	3.2
Air Travellers Security Charge	29	23	-20.7	325	335	3.1
Total excise taxes and duties	3,387	3,176	-6.2	36,255	34,831	-3.9
Total tax revenues	11,991	12,184	1.6	120,184	123,535	2.8
<b>Employment insurance premiums</b>	1,442	1,410	-2.2	14,474	13,962	-3.5
<b>Other revenues</b>	930	1,053	13.2	9,096	9,132	0.4
<b>Total budgetary revenues</b>	14,363	14,647	2.0	143,754	146,629	2.0



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Table 3

## Budgetary expenses

	January		Change	April to January		Change
	2003	2004		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,178	2,265	4.0	21,352	22,389	4.9
Employment insurance benefits	1,407	1,439	2.3	11,646	12,041	3.4
Total	3,585	3,704	3.3	32,998	34,430	4.3
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	15,500	16,916	9.1
Fiscal transfers	727	781	7.4	9,356	9,332	-0.3
Alternative Payments for Standing Programs	-210	-214	1.9	-2,101	-2,116	0.7
Total	2,067	2,258	9.2	22,755	24,132	6.1
Subsidies and other transfers						
Agriculture	328	135	-58.8	694	1,091	57.2
Foreign Affairs	225	317	40.9	1,285	1,621	26.1
Health	192	199	3.6	1,244	1,432	15.1
Human Resources Development	116	178	53.4	1,207	1,164	-3.6
Indian and Northern Development	393	332	-15.5	3,388	3,519	3.9
Industry and Regional Development	152	83	-45.4	1,482	1,577	6.4
Other	517	405	-21.7	2,235	2,218	-0.8
Total	1,923	1,649	-14.2	11,535	12,622	9.4
Total transfer payments	7,575	7,611	0.5	67,288	71,184	5.8
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	78	89	14.1	914	970	6.1
Canada Mortgage and Housing Corporation	159	158	-0.6	1,578	1,699	7.7
Other	164	121	-26.2	1,655	1,854	12.0
Total	401	368	-8.2	4,147	4,523	9.1
Defence	695	810	16.5	8,970	9,588	6.9
All other departments and agencies	2,467	2,520	2.1	25,109	26,240	4.5
Total other program expenses	3,563	3,698	3.8	38,226	40,351	5.6
<b>Total program expenses</b>	11,138	11,309	1.5	105,514	111,535	5.7
<b>Public debt charges</b>	3,136	2,992	-4.6	31,024	29,545	-4.8
<b>Total budgetary expenses</b>	14,274	14,301	0.2	136,538	141,080	3.3



Table 4

## Budgetary balance and financial source/requirement

	January		April to January	
	2003	2004	2002-03	2003-04
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	89	346	7,216	5,549
<b>Non-budgetary transactions</b>				
Capital investing activities	-283	-185	-1,823	-1,364
Other investing activities	-321	-371	-1,012	-917
Other activities				
Accounts payable, receivables, accruals and allowances	2,812	2,710	-8,615	-10,609
Foreign exchange activities	-146	-166	654	1,799
Amortization of tangible capital assets	270	239	2,415	2,405
Total other activities	2,936	2,783	-5,546	-6,405
<b>Total non-budgetary transactions</b>	2,332	2,227	-8,381	-8,686
<b>Net financial source/requirement</b>	2,421	2,573	-1,164	-3,137

Table 5

## Financial source/requirement and net financing activities

	January		April to January	
	2003	2004	2002-03	2003-04
(\$ millions)				
<b>Net financial source/requirement</b>	2,421	2,573	-1,164	-3,137
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-460	-60	-9,317	-12,213
Treasury bills	-1,350	-6,600	8,800	5,600
Canada Savings Bonds	-44	32	-1,701	-1,534
Other	-1	0	-19	91
Total	-1,855	-6,628	-2,237	-8,056
Foreign currency borrowings	-83	124	-2,345	-383
Total	-1,938	-6,504	-4,582	-8,439
Pension and other accounts	504	318	-1,382	542
<b>Net change in financing activities</b>	-1,434	-6,186	-5,964	-7,897
<b>Change in cash balance</b>	987	-3,613	-7,126	-11,034



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Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	January 31, 2004	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	71,898	-7,486
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	276,032	-12,213
Treasury bills	104,411	110,011	5,600
Canada Savings Bonds	22,584	21,050	-1,534
Other	3,371	3,462	91
Subtotal	418,611	410,555	-8,056
Payable in foreign currencies	21,141	20,757	-384
Total unmatrued debt	439,752	431,312	-8,440
Pension and other accounts			
Public sector pensions	125,708	127,739	2,031
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	5,815	-1,278
Other pension and other accounts	9,359	9,147	-212
Total pension and other accounts	181,004	181,546	542
Total interest-bearing debt	620,756	612,858	-7,897
<b>Total liabilities</b>	700,140	684,756	-15,384
<b>Financial assets</b>			
Cash and accounts receivable	62,626	54,321	-8,305
Foreign exchange accounts	48,950	47,151	-1,799
Loans, investments and advances (net of allowances)	23,748	25,079	1,331
Total financial assets	135,324	126,551	-8,773
<b>Net debt</b>	564,816	558,205	-6,611
<b>Non-financial assets</b>	54,240	53,178	-1,062
<b>Federal debt (accumulated deficit)</b>	510,576	505,027	-5,549

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March 2004



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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### February 2004: budgetary surplus of \$3.2 billion

There was a budgetary surplus of \$3.2 billion in February 2004, down \$0.7 billion from the restated surplus of \$4.0 billion in February 2003. Typically, a large surplus is recorded in February, reflecting the inclusion of final corporate income tax payments from those corporations with a taxation year ending December 31. On a year-over-year basis, the deterioration in the budgetary surplus was attributable to a decline in goods and services tax (GST) revenues and an increase in program expenses.

### April 2003 to February 2004: budgetary surplus of \$8.8 billion

The budgetary surplus is estimated at \$8.8 billion for the April 2003 to February 2004 period, down \$2.4 billion from the surplus of \$11.2 billion reported in the same period of 2002–03. Budgetary revenues were up \$2.8 billion or 1.8 per cent, due to the strength of corporate income taxes (up \$4.1 billion). The weakness in other revenue sources reflects the economic impacts of a number of domestic shocks that hit the Canadian economy in 2003. Program expenses were up \$6.8 billion, or 5.9 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down \$1.6 billion, or 4.8 per cent, reflecting lower interest rates and a decline in the stock of interest-bearing debt.

### Expected Budgetary Surplus Outcome for 2003–04: \$1.9 billion

Still to come are the March monthly results and the normal end-of-year adjustments, which typically lower the year-to-date surplus. In addition, the results to date do not include the impact of the policy initiatives announced in the 2004 budget, which totalled \$3.6 billion. Taking these factors into account, the results to date are consistent with the expected outcome of \$1.9 billion for 2003–04, as set out in the 2004 budget.

### February 2004: budgetary results

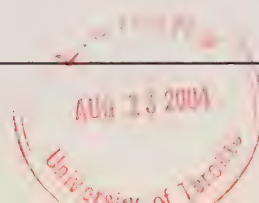
The February 2004 budgetary surplus of \$3.2 billion was down \$0.7 billion from the \$4.0 billion surplus reported in February 2003.

On a year-over-year basis, budgetary revenues, at \$17.4 billion, were down \$53 million, or 0.3 per cent.

- Personal income tax revenues were up \$0.5 billion, or 6.9 per cent, primarily reflecting growth in source deductions due to gains in employment and, hence, personal income.
- Corporate income tax revenues increased by \$0.4 billion, or 9.0 per cent, due to higher settlement payments from corporations with a taxation year ending December 31.

Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability. They have 60 days from their year-end to pay any taxes owing. Typically, about one-fifth of total corporate income tax revenues are received in the month of February, resulting in a large surplus in that month.

- Excise taxes and duties decreased by \$0.4 billion, or 11.7 per cent, primarily due to a \$0.4-billion decline in GST revenues. GST revenues were down because of a sharp decline in gross receipts from domestic sales and an increase in refunds and rebates. Customs import duties were down 11.9 per cent, while sales and excise taxes were up 5.4 per cent.





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- Employment insurance (EI) premiums were down 10.8 per cent, as the reduction in premium rates (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.3 billion, or 28.1 per cent. This category of revenues is quite volatile on a monthly basis.

On a year-over-year basis, program expenses in February 2004, at \$11.2 billion, were \$0.8 billion, or 7.9 per cent, higher than in February 2003. Transfer payments were 5.8 per cent higher while other program expenses were up 12.4 per cent.

The increase in transfer payments, on a year-over-year basis, is due to higher transfers to persons and increased subsidies and other transfers.

- Major transfers to persons, consisting of elderly and EI benefits, were up 10.6 per cent. Elderly benefits increased 4.3 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were up 20.7 per cent, mainly because of an extra payment cycle in February 2004 compared to last year.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were down 2.9 per cent. Although CHST payments were up as a result of the February 2003 First Ministers' Accord on Health Care Renewal, fiscal transfers were lower. Fiscal transfers consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In February 2004, official estimates of 2003–04 equalization entitlements, the largest component of fiscal transfers, were revised downward, as tax data for 2002 received in late January 2004 indicated that income growth in Ontario had been significantly lower than previously estimated. This reduced the fiscal disparities among the provinces, thereby resulting in lower equalization entitlements. The net impact of these revisions is being prorated among the remaining periods of 2003–04.

- Subsidies and other transfers increased \$0.1 billion, or 6.3 per cent. Transfers were up strongly in Human Resources Development because of the timing of payments under the various student assistance programs, and in Industry and Regional Development because of increased grants awarded by the Social Sciences and Humanities Research Council of Canada. These increases, however, were partly offset by a decrease in Agriculture, which was due to a large payment in February 2003 to the Crop Reinsurance Fund.

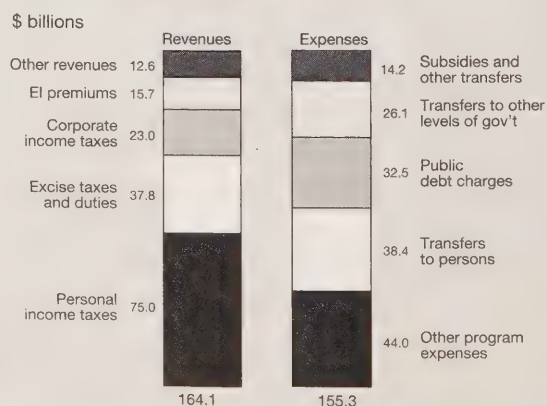
Other program expenses, which consist of operating expenses for departments and agencies, including defence and Crown corporations, were up 12.4 per cent year-over-year because of increases in non-defence departmental and agency expenses.

Public debt charges were down 4.7 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

## April 2003 to February 2004: budgetary results

In the first 11 months of the 2003–04 fiscal year, there was a budgetary surplus of \$8.8 billion—a year-over-year deterioration of \$2.4 billion from the surplus of \$11.2 billion reported in the same period of 2002–03. The lower surplus reflects the impact on revenues of the weakness in economic activity due to a series of shocks that hit the Canadian economy and the impact of spending initiatives and tax reduction measures announced in previous budgets.

### Revenues and expenses (April 2003 to February 2004)



On a year-over-year basis, budgetary revenues, at \$164.1 billion, were up \$2.8 billion, or 1.8 per cent.

- Personal income tax revenues were up \$1.6 billion, or 2.1 per cent, due to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was dampened by the impact of tax reduction measures announced in previous budgets. On balance, the growth in personal income taxes to date is in line with the growth in wages and salaries, adjusted for the impact of the budget measures.
- Corporate income taxes increased \$4.1 billion, or 21.5 per cent, reflecting the strong rebound in corporate profits in 2003, as well as lower refunds pertaining to prior-year assessments.
- Excise taxes and duties were down \$1.8 billion, primarily because of a 6.6-per-cent decline in GST revenues. Within GST revenues, gross receipts from imports have declined sharply, while gross receipts from domestic sales are virtually unchanged from the same period last year. As expected, the timing factors that contributed to strong growth in refunds earlier in 2003–04 are beginning to be unwound, leaving year-to-date refunds slightly below last year's levels. Rebates, however, are up strongly, reflecting strong growth in the housing and municipal, university, school and hospital sector.

Sales and excise taxes were up 3.4 per cent, while customs import duties were down 9.9 per cent, reflecting lower imports subject to import duties.

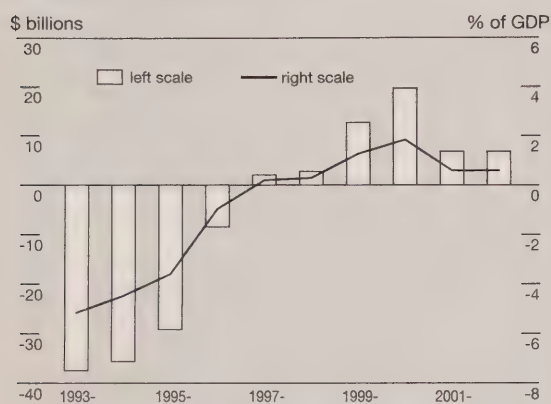
- EI premiums were down 4.4 per cent, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were down 2.6 per cent.

On a year-over-year basis, program expenses in the April 2003 to February 2004 period, at \$122.7 billion, were up \$6.8 billion, or 5.9 per cent, over the same period of 2002–03.

Transfer payments increased by \$4.3 billion, or 5.8 per cent.

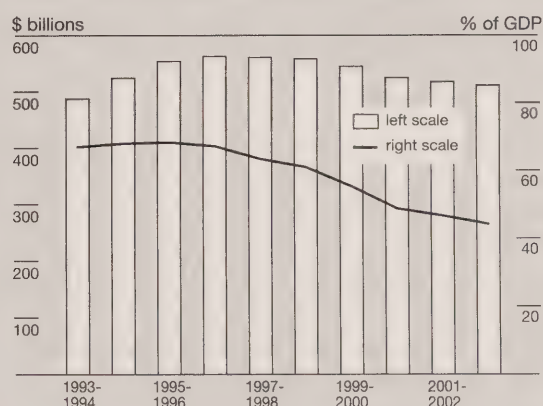
- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.8 billion, or 4.9 per cent. Elderly benefits increased 4.8 per cent, while EI benefits were up 5.2 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$1.3 billion, or 5.3 per cent, reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$1.2 billion, or 9.1 per cent, primarily reflecting the impact of previous budget measures.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



Other program expenses increased by \$2.5 billion, or 6.1 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

Public debt charges were down 4.8 per cent, reflecting a decline in both the average effective interest rate on interest-bearing debt and the stock of interest-bearing debt.

## **Financial source of \$1.1 billion for April 2003 to February 2004**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid.

In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$7.7 billion in the first 11 months of 2003–04, up \$0.7 billion from the requirement in the same period of 2002–03, primarily reflecting a lower net source of funds from foreign exchange activities.

With a budgetary surplus of \$8.8 billion and a net requirement of \$7.7 billion from non-budgetary transactions, there was a financial source of \$1.1 billion in the April 2003 to February 2004 period. This is down from the financial source of \$4.2 billion recorded in the same period of 2002–03, primarily reflecting the deterioration in the year-over-year budgetary surplus.

## **Net financing activities down \$9.6 billion**

With a financial source of \$1.1 billion and a \$9.6-billion decrease in net financing activities due to a decrease in unmatured debt transactions, the Government's cash balances declined by \$8.5 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of February stood at \$6.2 billion.

## **Note to readers**

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).

Table 1

## Summary statement of transactions

	February		April to February	
	2003	2004	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	17,473	17,420	161,229	164,051
Expenses				
Program expenses	-10,360	-11,174	-115,872	-122,710
Public debt charges	-3,147	-2,998	-34,173	-32,544
Budgetary balance (deficit/surplus) <sup>1</sup>	3,966	3,248	11,184	8,797
<b>Non-budgetary transactions</b>	1,370	954	-7,009	-7,734
<b>Financial source/requirement</b>	5,336	4,202	4,175	1,063
<b>Net change in financing activities</b>	-4,217	-1,686	-10,182	-9,582
<b>Net change in cash balances</b>	1,119	2,516	-6,007	-8,519
<b>Cash balance at end of period</b>			5,940	6,181

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a surplus of \$3.6 billion was recorded for February 2003.

Table 2

## Budgetary revenues

	February		Change	April to February		Change
	2003	2004		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,981	7,466	6.9	73,438	75,010	2.1
Corporate income tax	3,942	4,298	9.0	18,904	22,966	21.5
Other income tax revenue	220	224	1.8	2,730	2,717	-0.5
Total income tax	11,143	11,988	7.6	95,072	100,693	5.9
Excise taxes and duties						
Goods and services tax	2,307	1,914	-17.0	27,641	25,816	-6.6
Customs import duties	268	236	-11.9	2,931	2,642	-9.9
Sales and excise taxes	704	742	5.4	8,637	8,928	3.4
Air Travellers Security Charge	35	34	-2.9	360	369	2.5
Total excise taxes and duties	3,314	2,926	-11.7	39,569	37,755	-4.6
Total tax revenues	14,457	14,914	3.2	134,641	138,448	2.8
<b>Employment insurance premiums</b>	1,955	1,743	-10.8	16,428	15,705	-4.4
<b>Other revenues</b>	1,061	763	-28.1	10,160	9,898	-2.6
<b>Total budgetary revenues</b>	17,473	17,420	-0.3	161,229	164,051	1.8



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Table 3

## Budgetary expenses

	February		Change	April to February		Change
	2003	2004		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,181	2,274	4.3	23,534	24,662	4.8
Employment insurance benefits	1,372	1,656	20.7	13,018	13,698	5.2
Total	3,553	3,930	10.6	36,552	38,360	4.9
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	17,050	18,609	9.1
Fiscal transfers	727	531	-27.0	10,084	9,864	-2.2
Alternative Payments for Standing Programs	-210	-214	1.9	-2,312	-2,330	0.8
Total	2,067	2,008	-2.9	24,822	26,143	5.3
Subsidies and other transfers						
Agriculture	505	32	-93.7	1,200	1,123	-6.4
Foreign Affairs	230	224	-2.6	1,515	1,845	21.8
Health	104	119	14.4	1,348	1,551	15.1
Human Resources Development	106	280	164.2	1,313	1,445	10.1
Indian and Northern Development	308	267	-13.3	3,697	3,786	2.4
Industry and Regional Development	107	379	254.2	1,589	1,956	23.1
Other	163	318	95.1	2,399	2,539	5.8
Total	1,523	1,619	6.3	13,061	14,245	9.1
Total transfer payments	7,143	7,557	5.8	74,435	78,748	5.8
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	80	84	5.0	994	1,055	6.1
Canada Mortgage and Housing Corporation	170	161	-5.3	1,748	1,860	6.4
Other	221	106	-52.0	1,877	1,959	4.4
Total	471	351	-25.5	4,619	4,874	5.5
Defence	966	964	-0.2	9,935	10,552	6.2
All other departments and agencies	1,780	2,302	29.3	26,883	28,536	6.1
Total other program expenses	3,217	3,617	12.4	41,437	43,962	6.1
<b>Total program expenses</b>	10,360	11,174	7.9	115,872	122,710	5.9
<b>Public debt charges</b>	3,147	2,998	-4.7	34,173	32,544	-4.8
<b>Total budgetary expenses</b>	13,507	14,172	4.9	150,045	155,254	3.5

Table 4

## Budgetary balance and financial source/requirement

	February		April to February	
	2003	2004	2002-03	2003-04
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	3,966	3,248	11,184	8,797
<b>Non-budgetary transactions</b>				
Capital investing activities	-166	-171	-1,989	-1,536
Other investing activities	288	-134	-724	-1,052
Other activities				
Accounts payable, receivables, accruals and allowances	-1,890	314	-10,506	-10,295
Foreign exchange activities	2,956	627	3,611	2,426
Amortization of tangible capital assets	183	318	2,599	2,723
Total other activities	1,249	1,259	-4,296	-5,146
<b>Total non-budgetary transactions</b>	1,370	954	-7,009	-7,734
<b>Net financial source/requirement</b>	5,336	4,202	4,175	1,063

Table 5

## Financial source/requirement and net financing activities

	February		April to February	
	2003	2004	2002-03	2003-04
(\$ millions)				
<b>Net financial source/requirement</b>	5,336	4,202	4,175	1,063
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,190	984	-8,127	-11,229
Treasury bills	-3,050	-3,500	5,750	2,100
Canada Savings Bonds	-96	-131	-1,797	-1,665
Other		0	-19	91
Total	-1,956	-2,647	-4,193	-10,703
Foreign currency borrowings	-3,187	350	-5,533	-33
Total	-5,143	-2,297	-9,726	-10,736
Pension and other accounts	926	611	-456	1,154
<b>Net change in financing activities</b>	-4,217	-1,686	-10,182	-9,582
<b>Change in cash balance</b>	1,119	2,516	-6,007	-8,519



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	February 29, 2004	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	75,054	-4,330
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	277,016	-11,229
Treasury bills	104,411	106,511	2,100
Canada Savings Bonds	22,584	20,918	-1,666
Other	3,371	3,462	91
Subtotal	418,611	407,907	-10,704
Payable in foreign currencies	21,141	21,107	-34
Total unmaturred debt	439,752	429,014	-10,738
Pension and other accounts			
Public sector pensions	125,708	127,512	1,804
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	6,685	-408
Other pension and other accounts	9,359	9,117	-242
Total pension and other accounts	181,004	182,159	1,155
Total interest-bearing debt	620,756	611,173	-9,583
<b>Total liabilities</b>	700,140	686,227	-13,913
<b>Financial assets</b>			
Cash and accounts receivable	62,626	59,786	-2,840
Foreign exchange accounts	48,950	46,524	-2,426
Loans, investments and advances (net of allowances)	23,748	25,126	1,378
Total financial assets	135,324	131,436	-3,888
<b>Net debt</b>	564,816	554,791	-10,025
<b>Non-financial assets</b>	54,240	53,013	-1,227
<b>Federal debt (accumulated deficit)</b>	510,576	501,778	-8,798

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*Ce document est également offert en français.*

April 2004

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### March 2004: budgetary deficit of \$1.2 billion

There was a budgetary deficit of \$1.2 billion in March 2004, a deterioration of \$248 million from the restated deficit of \$987 million in March 2003. On a year-over-year basis, budgetary revenues were up \$2.7 billion, driven by strong increases in corporate income tax and goods and service tax (GST) revenues, while public debt charges were down \$0.3 billion. These positive developments on the budgetary balance were more than offset by a \$3.2-billion increase in program expenses, primarily due to the liabilities associated with the special \$2-billion Canada Health and Social Transfer (CHST) cash supplement to the provinces and territories for health and the special \$995 million in transitional assistance for Canadian farmers.

### April 2003 to March 2004: budgetary surplus of \$7.6 billion

The budgetary surplus is estimated at \$7.6 billion for the April 2003 to March 2004 period, down \$2.6 billion from the surplus of \$10.2 billion reported in the same period of 2002–03. Budgetary revenues were up \$5.5 billion, or 3.1 per cent, largely due to the strength of corporate income taxes (up \$5.6 billion). The weakness in other revenue sources reflected the economic impacts of a number of domestic shocks that hit the Canadian economy in 2003. Program expenses were up \$10.0 billion, or 7.8 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down \$1.9 billion, or 5.1 per cent, reflecting lower interest rates.

### March 2004 budget estimated surplus for 2003–04 at \$1.9 billion

These are not the final audited results for the 2003–04 fiscal year. Still to come are the regular end-of-year accounting adjustments, which incorporate the costs of liabilities incurred during the fiscal year for which no payments were made in 2003–04, reassessments of loan provisions and final tax accrual adjustments. In the past, these adjustments have reduced the April-to-March budgetary balance by \$3 billion to \$7 billion. Last year, the adjustments were at the lower end of the range, primarily reflecting a number of positive one-time adjustments to loan provisions, which are not expected to be repeated this year. Final results for 2003–04 will be released in the fall of 2004.

### March 2004: budgetary results

The March 2004 budgetary deficit of \$1.2 billion was \$248 million higher than the deficit reported in March 2003.

On a year-over-year basis, budgetary revenues, at \$17.8 billion, were up \$2.7 billion, or 17.6 per cent.

- Personal income tax revenues were up \$0.4 billion, or 5.4 per cent, primarily reflecting growth in source deductions from employment income, due to gains in employment and hence personal income.
- Corporate income tax revenues increased by \$1.5 billion to almost double the level recorded

last year. Part of the year-over-year increase was attributable to the timing of final settlement payments with respect to taxation year 2003. In addition, the improvement in corporate profits in 2003 has resulted in lower refunds and an increase in monthly installments. Corporations are required to file monthly installments based on either their previous year's actual tax liability or their current year's estimated tax liability. In calendar year 2003, monthly installments were largely based on the actual tax liability for taxation year 2002—a year of weak profits. With the strong rebound in profits in 2003, corporations are now making installment payments based on their 2003 tax liability.





# The Fiscal Monitor

- Excise taxes and duties increased by \$1.3 billion, or 63.1 per cent, solely due to a \$1.4-billion increase in GST revenues. The higher GST revenues reflect both a strong increase in gross receipts from both domestic sales and imports, reflecting strong retail sales in February 2004, and a sharp decline in refunds. The year-over-year decline in refunds primarily reflects the timing of refunds claimed in 2002–03, which resulted in a large increase in refunds being paid in March 2003. The other components of excise taxes and duties recorded year-over-year declines. Customs import duties were down 16.2 per cent, primarily reflecting the impact of the appreciation of the Canadian dollar.
- Employment insurance (EI) premiums were down 3.5 per cent, as the reduction in premium rates (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.5 billion. This component is extremely volatile on a monthly basis.

On a year-over-year basis, program expenses in March 2004 were \$16.1 billion, up \$3.2 billion, or 24.7 per cent, from March 2003, primarily due to higher transfer payments.

Transfer payments were \$3.4 billion higher, primarily due to the \$2-billion liability for the cash supplement under the CHST to the provinces and territories for health and the \$995-million agricultural assistance package.

- Major transfers to persons, consisting of elderly and EI benefits, were down 2.8 per cent on a year-over-year basis. Elderly benefits increased 4.2 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were down 12.6 per cent, mainly because of one less payment cycle in March 2004 compared to last year. As noted in last month's *Fiscal Monitor*, there was an extra cycle in February 2004.
- Major transfers to other levels of government, consisting of the CHST, fiscal transfers and Alternative Payments for Standing Programs, more than doubled, reflecting the booking of the liability, with the passage of Bill C-18, for the \$2-billion CHST cash supplement for health. Fiscal transfers

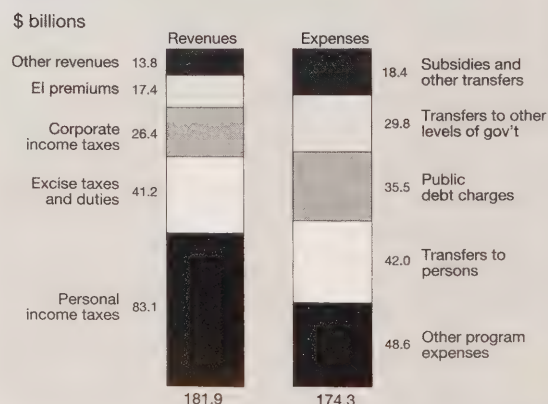
consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In February 2004, official estimates of 2003–04 equalization entitlements, the largest component of fiscal transfers, were revised downward, as tax data for 2002 received in late January 2004 indicated that income growth in Ontario had been significantly lower than previously estimated. This reduced the fiscal disparities among the provinces, thereby resulting in lower equalization entitlements. The net impact of these revisions is being prorated among the remaining periods of 2003–04.

- Subsidies and other transfers increased by \$1.6 billion, or 64 per cent, primarily due to the \$995 million in transitional assistance for Canadian farmers announced on March 22, 2004. The funding was provided to help the agricultural sector, which has been affected by a number of shocks and unforeseen events in the past year. In addition, health transfers were up due to liabilities to the province of Ontario for expenses related to the fight against severe acute respiratory syndrome.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. Transfers to Crown corporations were virtually unchanged. Defence expenses declined marginally, while expenses in all other departments and agencies were down 8.0 per cent. Monthly changes are largely affected by the timing of payments.

Public debt charges were down 8.4 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt, as the stock of interest-bearing debt was largely unchanged.

## Revenues and expenses (April 2003 to March 2004)



## April 2003 to March 2004: budgetary results

In the April to March period of fiscal year 2003–04, there was a budgetary surplus of \$7.6 billion—a year-over-year deterioration of \$2.6 billion from the surplus of \$10.2 billion reported in the same period of 2002–03. The lower surplus reflects the impact on revenues of the weakness in economic activity due to a series of shocks that have hit the Canadian economy and the impact of spending initiatives and tax reduction measures announced in previous budgets.

On a year-over-year basis, budgetary revenues, at \$181.9 billion, were up \$5.5 billion, or 3.1 per cent, as higher corporate and personal income tax revenues, up \$5.6 billion and \$2.0 billion respectively, were partially offset by declines in the other major revenue components.

- Personal income tax revenues were up \$2.0 billion, or 2.4 per cent, due to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was dampened by the impact of tax reduction measures announced in previous budgets.
- Corporate income taxes increased \$5.6 billion, or 26.9 per cent, reflecting the strong rebound in corporate profits in 2003, as well as lower refunds pertaining to prior-year assessments.
- Excise taxes and duties were down \$0.5 billion as a result of year-over-year declines in both GST revenues and customs import duties, partially offset by increases in sales and excise taxes. Within GST revenues, gross receipts from imports have declined

sharply, while gross receipts from domestic sales are virtually unchanged from the same period last year. As expected, the timing factors that contributed to weak growth in refunds in the first half of 2003–04 have been unwound, leaving current refunds below last year's levels and in line with the decline in gross collections. Rebates, however, are up strongly, reflecting strong growth in spending in the housing and municipal, university, school and hospital sectors. Customs import duties were down 10.4 per cent, reflecting the impact of the appreciation in the value of the Canadian dollar. Sales and excise taxes were up 2.8 per cent.

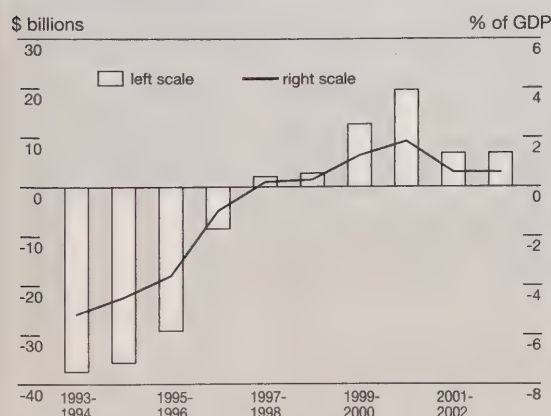
- EI premiums were down 4.3 per cent, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were down 6.7 per cent.

On a year-over-year basis, program expenses in the April 2003 to March 2004 period, at \$138.8 billion, were up \$10 billion, or 7.8 per cent, over the same period of 2002–03, with increases in all major components.

Transfer payments increased by \$7.8 billion, or 9.4 per cent.

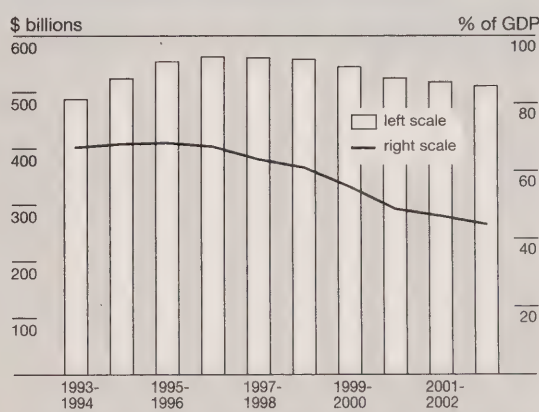
- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.7 billion, or 4.2 per cent. Elderly benefits increased 4.7 per cent, while EI benefits were up 3.3 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



- Major transfers to other levels of government increased by \$3.2 billion, or 12.2 per cent, primarily reflecting higher entitlements under the CHST program and the liability associated with the \$2-billion CHST cash supplement.
- Subsidies and other transfers increased by \$2.8 billion, or 18.1 per cent, primarily reflecting the impact of previous budget measures, including the \$995-million agricultural assistance package.

Other program expenses increased by \$2.3 billion, or 4.9 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

Public debt charges were down 5.1 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

## **Financial source of \$3.1 billion for April 2003 to March 2004**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.4 billion in 2003–04, down \$0.8 billion from the requirement in the same period of 2002–03, primarily reflecting a higher net source of funds from foreign exchange activities.

With a budgetary surplus of \$7.6 billion and a net requirement of \$4.4 billion from non-budgetary transactions, there was a financial source of \$3.1 billion in the April 2003 to March 2004 period. This is down from the financial source of \$5.0 billion

recorded in the same period last year, primarily reflecting the deterioration in the year-over-year budgetary surplus.

## **Net financing activities down \$0.6 billion**

With this financial source of \$3.1 billion, the Government reduced its net financing activities by \$0.6 billion and increased its cash balances by \$2.6 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of March stood at \$17.3 billion.

## **Note to readers**

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase.

For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	March		April to March	
	2003	2004	2002-03	2003-04
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	15,177	17,842	176,407	181,892
Expenses				
Program expenses	-12,912	-16,099	-128,785	-138,807
Public debt charges	-3,252	-2,978	-37,426	-35,522
Budgetary balance (deficit/surplus) <sup>1</sup>	-987	-1,235	10,196	7,563
<b>Non-budgetary transactions</b>	1,762	3,301	-5,246	-4,433
<b>Financial source/requirement</b>	775	2,066	4,950	3,130
<b>Net change in financing activities</b>	8,027	9,003	-2,157	-579
<b>Net change in cash balances</b>	8,802	11,069	2,793	2,551
<b>Cash balance at end of period</b>			14,740	17,250

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a deficit of \$4.4 billion was recorded for March 2003.

Table 2

## Budgetary revenues

	March			April to March		
	2003	2004	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,718	8,135	5.4	81,157	83,144	2.4
Corporate income tax	1,868	3,389	81.4	20,772	26,355	26.9
Other income tax revenue	226	195	-13.7	2,956	2,912	-1.5
Total income tax	9,812	11,719	19.4	104,885	112,411	7.2
Excise taxes and duties						
Goods and services tax	1,038	2,446	135.6	28,680	28,262	-1.5
Customs import duties	272	228	-16.2	3,203	2,870	-10.4
Sales and excise taxes	758	730	-3.7	9,397	9,660	2.8
Air Travellers Security Charge	47	45	-4.3	407	414	1.7
Total excise taxes and duties	2,115	3,449	63.1	41,687	41,206	-1.2
Total tax revenues	11,927	15,168	27.2	146,572	153,617	4.8
<b>Employment insurance premiums</b>	1,775	1,713	-3.5	18,203	17,419	-4.3
<b>Other revenues</b>	1,475	961	-34.8	11,632	10,856	-6.7
<b>Total budgetary revenues</b>	15,177	17,842	17.6	176,407	181,892	3.1



# The Fiscal Monitor

Table 3

## Budgetary expenses

	March		Change	April to March		Change
	2003	2004		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,186	2,277	4.2	25,720	26,939	4.7
Employment insurance benefits	1,576	1,378	-12.6	14,594	15,076	3.3
Total	3,762	3,655	-2.8	40,314	42,015	4.2
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	3,691	138.1	18,600	22,300	19.9
Fiscal transfers	369	216	-41.5	10,453	10,081	-3.6
Alternative Payments for Standing Programs	-210	-285	35.7	-2,522	-2,615	3.7
Total	1,709	3,622	111.9	26,531	29,766	12.2
Subsidies and other transfers						
Agriculture	193	1,235	539.9	1,393	2,358	69.3
Foreign Affairs	742	674	-9.2	2,256	2,519	11.7
Health	163	508	211.7	1,511	2,059	36.3
Human Resources Development	138	169	22.5	1,451	1,614	11.2
Indian and Northern Development	454	481	5.9	4,151	4,268	2.8
Industry and Regional Development	370	479	29.5	1,959	2,435	24.3
Other	501	655	30.7	2,899	3,192	10.1
Total	2,561	4,201	64.0	15,620	18,445	18.1
Total transfer payments	8,032	11,478	42.9	82,465	90,226	9.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	57	20	-64.9	1,051	1,074	2.2
Canada Mortgage and Housing Corporation	165	205	24.2	1,913	2,065	7.9
Other	167	166	-0.6	2,045	2,125	3.9
Total	389	391	0.5	5,009	5,264	5.1
Defence	1,393	1,381	-0.9	11,328	11,933	5.3
All other departments and agencies	3,098	2,849	-8.0	29,983	31,384	4.7
Total other program expenses	4,880	4,621	-5.3	46,320	48,581	4.9
<b>Total program expenses</b>	12,912	16,099	24.7	128,785	138,807	7.8
<b>Public debt charges</b>	3,252	2,978	-8.4	37,426	35,522	-5.1
<b>Total budgetary expenses</b>	16,164	19,077	18.0	166,211	174,329	4.9

Table 4

## Budgetary balance and financial source/requirement

	March		April to March	
	2003	2004	2002-03	2003-04
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-987	-1,235	10,196	7,563
<b>Non-budgetary transactions</b>				
Capital investing activities	-696	-724	-2,685	-2,259
Other investing activities	-55	792	-779	-260
Other activities				
Accounts payable, receivables, accruals and allowances	2,840	1,144	-7,664	-9,152
Foreign exchange activities	-552	1,793	3,058	4,219
Amortization of tangible capital assets	225	295	2,824	3,018
Total other activities	2,513	3,232	-1,782	-1,915
<b>Total non-budgetary transactions</b>	1,762	3,301	-5,246	-4,433
<b>Net financial source/requirement</b>	775	2,066	4,950	3,130

Table 5

## Financial source/requirement and net financing activities

	March		April to March	
	2003	2004	2002-03	2003-04
(\$ millions)				
<b>Net financial source/requirement</b>	775	2,066	4,950	3,130
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,456	1,921	-5,671	-9,307
Treasury bills	4,650	6,700	10,400	8,800
Canada Savings Bonds	-135	-15	-1,932	-1,680
Other	-1	-34	-19	57
Total	6,970	8,572	2,778	-2,130
Foreign currency borrowings	-364	-564	-5,897	-597
Total	6,606	8,008	-3,119	-2,727
Pension and other accounts	1,421	995	962	2,148
<b>Net change in financing activities</b>	8,027	9,003	-2,157	-579
<b>Change in cash balance</b>	8,802	11,069	2,793	2,551



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	March 31, 2004	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	75,937	-3,447
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	278,939	-9,306
Treasury bills	104,411	113,211	8,800
Canada Savings Bonds	22,584	20,904	-1,680
Other	3,371	3,427	56
Subtotal	418,611	416,481	-2,130
Payable in foreign currencies	21,141	20,544	-597
Total unmaturred debt	439,752	437,025	-2,727
Pension and other accounts			
Public sector pensions	125,708	127,790	2,082
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	7,480	387
Other pension and other accounts	9,359	9,038	-321
Total pension and other accounts	181,004	183,152	2,148
Total interest-bearing debt	620,756	620,177	-579
<b>Total liabilities</b>	700,140	696,114	-4,026
<b>Financial assets</b>			
Cash and accounts receivable	62,626	69,979	7,353
Foreign exchange accounts	48,950	44,731	-4,219
Loans, investments and advances (net of allowances)	23,748	25,031	1,283
Total financial assets	135,324	139,741	4,417
<b>Net debt</b>	564,816	556,373	-8,443
<b>Non-financial assets</b>	54,240	53,360	-880
<b>Federal debt (accumulated deficit)</b>	510,576	503,013	-7,563



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May 2004

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### April 2004: budgetary surplus of \$788 million

There was a budgetary surplus of \$788 million in April 2004, down \$205 million from the restated surplus of \$993 million in April 2003. On a year-over-year basis, budgetary revenues were up \$0.2 billion while program expenses were up \$0.4 billion. Public debt charges were essentially unchanged.

### April 2004: budgetary results

The April 2004 budgetary surplus of \$788 million was \$205 million lower than the surplus reported in April 2003. The April 2003 surplus was restated from \$424 million to \$993 million due to revisions to the monthly accrual methodology.

On a year-over-year basis, budgetary revenues, at \$15.2 billion, were up \$0.2 billion, or 1.6 per cent.

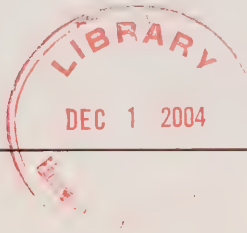
- Personal income tax revenues were up \$0.7 billion, or 10.4 per cent, primarily reflecting strong growth in source deductions from employment income.
- Corporate income tax revenues fell by \$0.4 billion, or 20.9 per cent, reflecting strong increases in refunds. Monthly installments were slightly higher.
- Excise taxes and duties increased by \$0.1 billion, or 2.2 per cent. Goods and services tax (GST) revenues advanced by 2.2 per cent, as a strong gain in gross GST receipts from domestic sales and lower refunds and rebates were partly offset by the weakness in GST collected on imported goods. Sales and excise taxes were up 5.7 per cent due in large part to increases in tobacco duties. Customs import duties were down 3.3 per cent, primarily reflecting the impact of the appreciation of the Canadian dollar.

- Employment insurance (EI) premiums were down 4.2 per cent, as the reduction in premium rates (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up marginally.

On a year-over-year basis, program expenses in April 2004 were \$11.6 billion, up \$0.4 billion, or 4.0 per cent, from April 2003, primarily due to higher transfer payments.

Transfer payments were up \$0.3 billion due in large part to increased federal support to the provinces and territories for health and other social programs.

- Major transfers to persons, consisting of elderly and EI benefits, were up 1.1 per cent on a year-over-year basis. Elderly benefits increased 3.6 per cent due to both higher average benefits, which are indexed quarterly to changes in consumer prices, and an increase in the number of individuals eligible for benefits. EI benefit payments were down 2.9 per cent, primarily reflecting lower labour market adjustment payments to provinces.





# The Fiscal Monitor

- Major transfers to other levels of government consist of support for health and other social programs, fiscal transfers and Alternative Payments for Standing Programs. Starting in April 2004, the former Canada Health and Social Transfer has been divided into the Canada Health Transfer, Canada Social Transfer and Health Reform Transfer. Total payments were up \$147 million as a result of the February 2003 First Ministers' Accord on Health Care Renewal. The increase in fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, was largely offset by higher recoveries under Alternative Payments for Standing Programs.
- Subsidies and other transfers increased \$106 million, or 8.0 per cent, reflecting the impact of previous budget measures.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. Transfers to Crown corporations were virtually unchanged. Defence expenses declined 4.7 per cent, while expenses in all other departments and agencies were up 7.3 per cent, due mainly to increased operating expenses and policy initiatives announced in previous budgets.

Public debt charges were essentially unchanged.

## Financial requirement of \$4.1 billion for April 2004

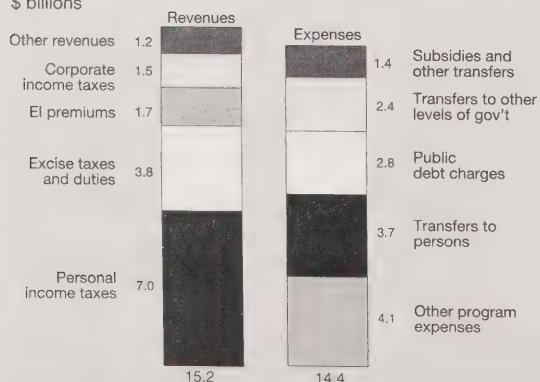
The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, pensions and other accounts, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.9 billion in April 2004, down \$0.6 billion from the requirement in April 2003 as higher requirements related to capital acquisitions and pensions and other accounts were more than offset by increased sources of funds from foreign exchange activities and a lower requirement from accounts payable, receivables, accruals and allowances.

### Revenues and expenses

(April 2004)

\$ billions



With a budgetary surplus of \$0.8 billion and a net requirement of \$4.9 billion from non-budgetary transactions, there was a financial requirement of \$4.1 billion in April 2004. This is down from the financial requirement of \$4.5 billion recorded in the same period last year, as the deterioration in the year-over-year budgetary surplus was more than offset by the reduction in the requirement for non-budgetary transactions.

Table 3

## Budgetary expenses

	April		
	2003	2004	Change
	(\$ millions)		(%)
<b>Transfer payments</b>			
Transfers to persons			
Elderly benefits	2,201	2,281	3.6
Employment insurance benefits	1,431	1,390	-2.9
Total	3,632	3,671	1.1
Transfers to other levels of government			
Support for health and other social programs			
Canada Health Transfer		1,054	
Canada Social Transfer		652	
Health Reform Transfer		125	
Canada Health and Social Transfer	1,692	8	
Total	1,692	1,839	8.7
Fiscal transfers	748	815	9.0
Alternative Payments for Standing Programs	-191	-253	32.5
Total	2,249	2,401	6.8
Subsidies and other transfers			
Agriculture	4	12	200.0
Foreign Affairs	199	171	-14.1
Health	95	128	34.7
Human Resources Development	132	148	12.1
Indian and Northern Development	600	630	5.0
Industry and Regional Development	89	118	32.6
Other	200	218	9.0
Total	1,319	1,425	8.0
Total transfer payments	7,200	7,497	4.1
<b>Other program expenses</b>			
Crown corporation expenses			
Canadian Broadcasting Corporation	178	214	20.2
Canada Mortgage and Housing Corporation	205	144	-29.8
Other	257	283	10.1
Total	640	641	0.2
Defence	786	749	-4.7
All other departments and agencies	2,513	2,697	7.3
Total other program expenses	3,939	4,087	3.8
<b>Total program expenses</b>	11,139	11,584	4.0
<b>Public debt charges</b>	2,822	2,819	-0.1
<b>Total budgetary expenses</b>	13,961	14,403	3.2



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	April	
	2003	2004
	(\$ millions)	
<b>Budgetary transactions</b>		
Revenues	14,954	15,191
Expenses		
Program expenses	-11,139	-11,584
Public debt charges	-2,822	-2,819
Budgetary balance (deficit/surplus)	993	788
<b>Non-budgetary transactions</b>	-5,450	-4,868
<b>Financial source/requirement</b>	-4,457	-4,080
<b>Net change in financing activities</b>	-4,699	-7,901
<b>Net change in cash balances</b>	-9,156	-11,981
<b>Cash balance at end of period</b>	5,543	5,298

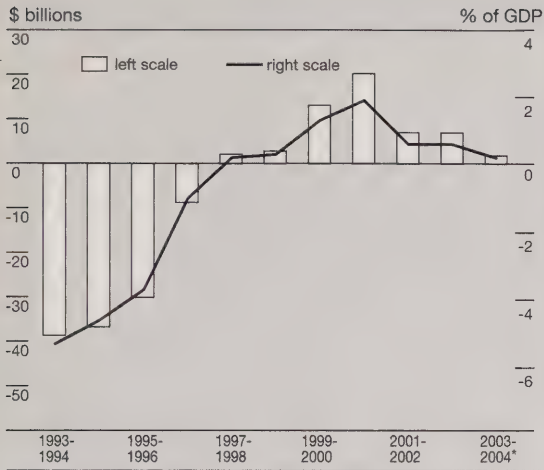
Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	April		Change
	2003	2004	
	(\$ millions)		(%)
<b>Tax revenues</b>			
Income taxes			
Personal income tax	6,336	6,992	10.4
Corporate income tax	1,873	1,481	-20.9
Other income tax revenue	288	247	-14.2
Total income tax	8,497	8,720	2.6
Excise taxes and duties			
Goods and services tax	2,728	2,787	2.2
Customs import duties	243	235	-3.3
Sales and excise taxes	733	775	5.7
Air Travellers Security Charge	45	34	-24.4
Total excise taxes and duties	3,749	3,831	2.2
Total tax revenues	12,246	12,551	2.5
<b>Employment insurance premiums</b>	1,771	1,697	-4.2
<b>Other revenues</b>	937	943	0.6
<b>Total budgetary revenues</b>	14,954	15,191	1.6

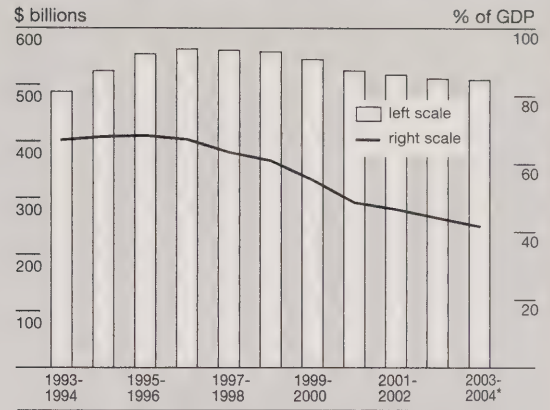
## Budgetary balance



\* 2004 budget estimate.

Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



\* 2004 budget estimate.

Sources: Department of Finance and Statistics Canada.

## Net financing activities down \$7.9 billion

With this financial requirement of \$4.1 billion, the Government reduced its net financing activities by \$7.9 billion and its cash balances by \$12.0 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of April stood at \$5.3 billion.



# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	April	
	2003	2004
	(\$ millions)	
<b>Budgetary balance (deficit/surplus)</b>	993	788
<b>Non-budgetary transactions</b>		
Capital investing activities	-45	-148
Amortization of tangible capital assets	349	272
Other investing activities	-313	145
Pensions and other accounts	402	-578
Accounts payable, receivables, accruals and allowances	-5,737	-5,169
Foreign exchange activities	-106	610
<b>Total non-budgetary transactions</b>	-5,450	-4,868
<b>Net financial source/requirement</b>	-4,457	-4,080

Table 5

## Financial source/requirement and net financing activities

	April	
	2003	2004
	(\$ millions)	
<b>Net financial source/requirement</b>	-4,457	-4,080
<b>Net increase (+)/decrease (-) in financing activities</b>		
Canadian currency borrowings		
Marketable bonds	-1,054	-2,818
Treasury bills	-3,500	-3,800
Canada Savings Bonds	-94	-9
Other	0	-25
<b>Total</b>	-4,648	-6,652
Foreign currency borrowings	-51	-1,249
<b>Net change in financing activities</b>	-4,699	-7,901
<b>Change in cash balance</b>	-9,156	-11,981

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July 2004

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### May 2004: budgetary surplus of \$1.0 billion

There was a budgetary surplus of \$1.0 billion in May 2004, up \$79 million from the surplus reported in the same period last year, as higher budgetary revenues more than offset the increase in total expenses. On a year-over-year basis, budgetary revenues were up \$0.5 billion as strong gains in personal income tax revenues and goods and services taxes more than offset declines in most other revenue components. Program expenses increased by \$0.4 billion, primarily reflecting higher transfer payments, while public debt charges were virtually unchanged.

### April 2004 to May 2004: budgetary surplus of \$1.8 billion

For the first two months of the 2004-05 fiscal year (April and May), the budgetary surplus is estimated at \$1.8 billion, down \$125 million from the surplus reported in the same period a year ago. Budgetary revenues were up \$0.7 billion or 2.5 per cent, due largely to the strength of personal income taxes. Program expenses were up \$0.9 billion, or 4.0 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down marginally.

### May 2004: budgetary results

The May 2004 budgetary surplus of \$1.0 billion was slightly higher than that reported in May 2003.

On a year-over-year basis, budgetary revenues, at \$15.2 billion, were up \$0.5 billion, or 3.4 per cent. Strong year-over-year increases in personal income tax and the goods and services tax (GST) revenues more than offset declines in corporate income tax revenues, sales and excise taxes, employment insurance premiums and other revenues.

- Personal income tax revenues were up \$0.9 billion or 15.1 per cent, primarily due to strong year-over-year growth in source deductions from employment income, reflecting, in part, strong gains in employment over the past twelve months.
- Corporate income tax revenues declined by \$0.1 billion on a year-over-year basis, primarily reflecting higher refunds related to reassessments of tax liabilities in previous years.

- Excise taxes and duties increased by \$0.1 billion, or 4.5 per cent. Goods and Services Tax (GST) advanced by \$0.3 billion, or 14.7 per cent. The higher GST revenues reflected higher gross receipts from both domestic sales and imports. Customs import duties were up 8.6 per cent, while sales and excise taxes declined by 20.1 per cent, primarily attributable to lower energy excise taxes.
- Employment insurance (EI) premiums were down 5.2 per cent, as the reduction in premium rates (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.5 billion, or 33.1 per cent. This component is extremely volatile on a monthly basis.





# The Fiscal Monitor

On a year-over-year basis, program expenses in May 2004 were \$11.2 billion, up \$0.4 billion, or 4.1 per cent, from May 2003, due to higher transfer payments, as other program expenses were lower.

Transfer payments were \$0.5 billion higher, with increases in the three major components.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.2 billion, or 6.3 per cent, on a year-over-year basis. Elderly benefits increased 3.5 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were up 12.0 per cent, mainly because of one more payment cycle in May 2004 compared to last year.
- Major transfers to other levels of government, consisting of the federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Medical Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs were up \$0.3 billion, or 10.3 per cent. The increase in federal transfers in support of health and other social transfers reflected increased funding under the February 2003 Health Accord. Fiscal transfers consist of Equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 17.0 per cent from May 2003.
- Subsidies and other transfers increased marginally. This component is extremely volatile over the first few months of the fiscal year, reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defense. All major components were lower than in May 2003, reflecting the timing of payments.

Public debt charges were down marginally, as a lower stock of interest-bearing debt offset the impact of an increase in the average effective interest rate on that debt.

## April and May 2004: budgetary results

In the first two months of the fiscal year, there was a budgetary surplus of \$1.8 billion, slightly less than the \$1.9 billion surplus reported in the same period of 2003–04, as higher program expenses offset an increase in budgetary revenues. On a year-over-year basis, budgetary revenues, at \$30.4 billion, were up \$0.7 billion, or 2.5 per cent, as higher personal income tax and GST revenues more than offset declines in most of the other major revenue components. On a year-over-year basis, program expenses in the April and May 2004 period, at \$28.6 billion, were up \$0.9 billion, or 4.0 per cent, over the same period of 2003–04, with most of the increase attributable to higher transfers, especially for health care. Public debt charges were marginally lower.

### Revenues and expenses (April-May 2004)

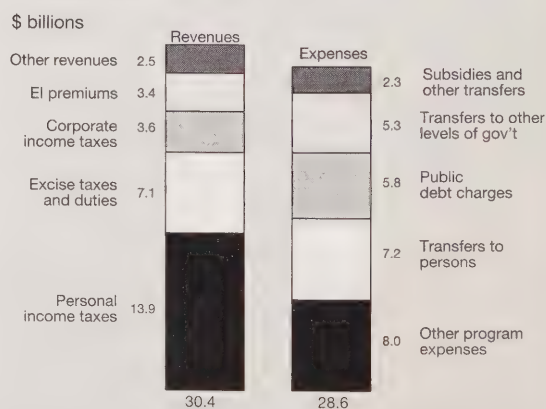


Table 3

## Budgetary expenses

	May		Change	April to May		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,208	2,286	3.5	4,409	4,567	3.6
Employment insurance benefits	1,083	1,213	12.0	2,514	2,602	3.5
Total	3,291	3,499	6.3	6,923	7,169	3.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			2,108	
Canada Social Transfer		652			1,304	
Health Reform Transfer		125			250	
Canada Health and Social Transfer	1,691	8		3,384	16	
Total	1,691	1,839	8.8	3,384	3,678	8.7
Fiscal transfers	1,036	1,212	17.0	1,784	2,152	20.6
Alternative Payments for Standing Programs	-191	-253	32.5	-382	-506	32.5
Total	2,536	2,798	10.3	4,786	5,324	11.2
Subsidies and other transfers						
Agriculture	3	47	1,466.7	8	59	637.5
Foreign Affairs	98	164	67.3	297	335	12.8
Health	151	159	5.3	246	286	16.3
Human Resources Development	100	155	55.0	232	303	30.6
Indian and Northern Development	309	299	-3.2	909	929	2.2
Industry and Regional Development	91	115	26.4	181	232	28.2
Other	220	64	-70.9	420	155	-63.1
Total	972	1,003	3.2	2,293	2,299	0.3
Total transfer payments	6,799	7,300	7.4	14,002	14,792	5.6
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	87	87	0.0	265	301	13.6
Canada Mortgage and Housing Corporation	213	216	1.4	418	360	-13.9
Other	166	108	-34.9	426	390	-8.5
Total	466	411	-11.8	1,109	1,051	-5.2
Defence	866	891	2.9	1,652	1,641	-0.7
All other departments and agencies	2,623	2,596	-1.0	5,097	5,261	3.2
Total other program expenses	3,955	3,898	-1.4	7,858	7,953	1.2
<b>Total program expenses</b>	10,754	11,198	4.1	21,860	22,745	4.0
<b>Public debt charges</b>	2,985	2,968	-0.6	5,840	5,824	-0.3
<b>Total budgetary expenses</b>	13,739	14,166	3.1	27,700	28,569	3.1

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	May		April to May	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	14,691	15,197	29,644	30,388
Expenses				
Program expenses	-10,754	-11,198	-21,860	-22,745
Public debt charges	-2,985	-2,968	-5,840	-5,824
Budgetary balance (deficit/surplus)	952	1,031	1,944	1,819
<b>Non-budgetary transactions</b>	1,127	343	-4,324	-4,525
<b>Financial source/requirement</b>	2,079	1,374	-2,380	-2,706
<b>Net change in financing activities</b>	7,369	9,028	2,672	1,127
<b>Net change in cash balances</b>	9,448	10,402	292	-1,579
<b>Cash balance at end of period</b>			14,994	15,747

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	May			April to May		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenue</b>						
Income tax						
Personal income tax	6,015	6,925	15.1	12,351	13,916	12.7
Corporate income tax	2,180	2,095	-3.9	4,053	3,577	-11.7
Other income tax revenue	212	321	51.4	500	568	13.6
Total income tax	8,407	9,341	11.1	16,904	18,061	6.8
Excise taxes and duties						
Goods and services tax	2,033	2,332	14.7	4,761	5,120	7.5
Customs import duties	209	227	8.6	453	462	2.0
Sales and excise taxes	793	634	-20.1	1,526	1,410	-7.6
Air Travellers Security Charge	50	31	-38.0	95	65	-31.6
Total excise taxes and duties	3,085	3,224	4.5	6,835	7,057	3.2
Total tax revenues	11,492	12,565	9.3	23,739	25,118	5.8
<b>Employment insurance premiums</b>	1,762	1,671	-5.2	3,533	3,368	-4.7
<b>Other revenues</b>	1,437	961	-33.1	2,372	1,902	-19.8
<b>Total budgetary revenues</b>	14,691	15,197	3.4	29,644	30,388	2.5



## Financial requirement of \$2.7 billion for April and May 2004

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets, its loans, financial investments and advances, and pensions and other accounts, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

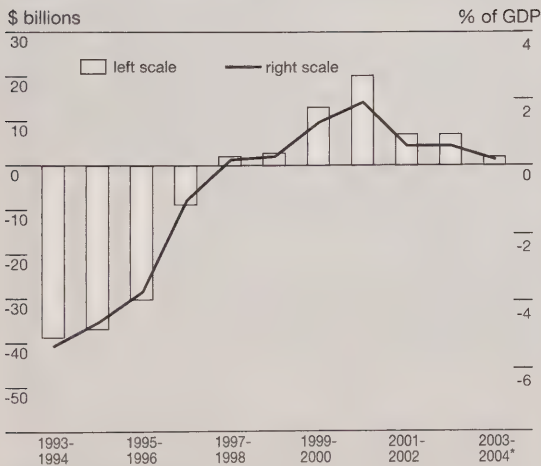
Non-budgetary transactions resulted in a net requirement of \$4.5 billion in April and May, up \$0.2 billion from the requirement in the same period of 2003-04, primarily reflecting a lower net source of funds from pensions and other accounts.

With a budgetary surplus of \$1.8 billion and a net requirement of \$4.5 billion from non-budgetary transactions, there was a financial requirement of \$2.7 billion in the first two months of 2004-05, up slightly from the same period last year.

## Net financing activities up \$1.1 billion

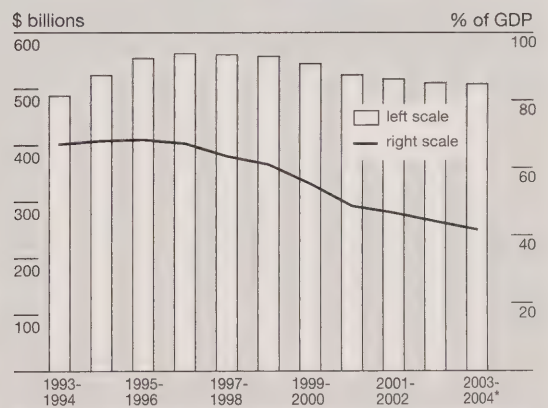
To finance this net financial requirement, the Government increased its net financing activities by \$1.1 billion and reduced its cash balances by \$1.6 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at \$15.7 billion.

### Budgetary balance



\* 2004 budget estimate.  
Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



\* 2004 budget estimate.  
Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	May		April to May	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	952	1,031	1,944	1,819
<b>Non-budgetary transactions</b>				
Capital investing activities	-203	-90	-249	-238
Other investing activities	-11	8	-324	153
Pension and other accounts	412	764	813	184
Other activities				
Accounts payable, receivables, accruals and allowances	883	518	-4,853	-4,651
Foreign exchange activities	-106	-1,106	-212	-495
Amortization of tangible capital assets	152	249	501	522
Total other activities	929	-339	-4,564	-4,624
<b>Total non-budgetary transactions</b>	1,127	343	-4,324	-4,525
<b>Net financial source/requirement</b>	2,079	1,374	-2,380	-2,706

Table 5

## Financial source/requirement and net financing activities

	May		April to May	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Net financial source/requirement</b>	2,079	1,374	-2,380	-2,706
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transaction				
Canadian currency borrowings				
Marketable bonds	1,693	4,974	641	2,156
Treasury bills	6,000	3,800	2,500	0
Canada Savings Bonds	-138	-38	-232	-47
Other	-5	17	-5	-8
Total	7,550	8,753	2,904	2,101
Foreign currency borrowings	-181	275	-232	-974
<b>Net change in financing activities</b>	7,369	9,028	2,672	1,127
<b>Change in cash balance</b>	9,448	10,402	292	-1,579

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July 2004

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### June 2004: budgetary surplus of \$1.1 billion

There was a budgetary surplus of \$1.1 billion in June 2004, \$0.6 billion lower than the surplus of \$1.7 billion reported in June 2003. This year-over-year decline in the budgetary surplus primarily reflects the timing of revenue collections over the first three months of this year compared to the same period last year. On a year-over-year basis, budgetary revenues were down \$0.3 billion, while program expenses increased by \$0.4 billion, primarily reflecting higher transfer payments to the provinces and territories. Public debt charges were \$0.1 billion lower.

### April to June 2004: budgetary surplus of \$2.9 billion

For the first three months of the 2004-05 fiscal year (April to June), the budgetary surplus is estimated at \$2.9 billion, down \$0.7 billion from the surplus reported in the same period last year. Budgetary revenues were up \$0.5 billion, or 1.0 per cent, as increases in personal income tax and goods and services tax (GST) revenues were dampened by declines in corporate income tax revenues, employment insurance (EI) premiums and other revenues. Program expenses were up \$1.3 billion, or 4.1 per cent, primarily due to higher transfers to the provinces for health and equalization. Public debt charges were \$0.1 billion lower.

### June 2004: budgetary results

The June 2004 budgetary surplus of \$1.1 billion was \$0.6 billion lower than that reported in June 2003.

On a year-over-year basis, budgetary revenues, at \$15.1 billion, were down \$0.3 billion, or 1.8 per cent. This decline primarily reflects timing factors with respect to the receipt of revenues over the first three months of 2004-05 compared to the same period last year.

- Personal income tax revenues were down \$0.5 billion, or 6.2 per cent, offsetting about half of the year-over-year increase reported in May 2004. This primarily reflects the timing of receipts between May and June of this year compared to May and June of last year.
- Corporate income tax revenues increased by \$0.3 billion on a year-over-year basis, reflecting both strong growth in gross receipts and lower refunds related to reassessments of tax liabilities in previous years.
- Excise taxes and duties declined by \$90 million, or 2.7 per cent. GST revenues were down \$147 million, or 6.4 per cent, reversing some of the year-over-year increase reported in May 2004.

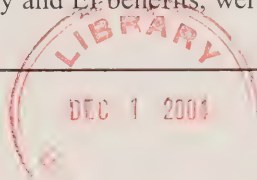
Customs import duties were unchanged, while sales and excise taxes increased by 7.6 per cent, offsetting some of the year-over-year decline reported last month.

- EI premiums were down 6.1 per cent, as the reduction in premium rates (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.1 billion, or 8.0 per cent. This component is extremely volatile on a monthly basis.

On a year-over-year basis, program expenses in June 2004 were \$11.2 billion, up \$0.4 billion, or 4.1 per cent, from June 2003 due entirely to higher transfer payments, as other program expenses were marginally lower.

Transfer payments were \$0.5 billion higher, with increases in the three major components.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$19 million,





# The Fiscal Monitor

or 0.6 per cent, on a year-over-year basis. Elderly benefits increased 2.9 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits.

EI benefit payments declined 4.3 per cent, reflecting the timing of payments between May and June. As noted in the May 2004 *Fiscal Monitor*, the large year-over-year increase reported in May 2004 was attributable to the inclusion of one more payment cycle in May 2004 compared to last year.

- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.3 billion, or 11.0 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 Health Accord. Fiscal transfers consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 19.8 per cent from June 2003.
- Subsidies and other transfers increased by 17.6 per cent. This component is extremely volatile over the first few months of the fiscal year, reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were marginally lower, as increases in Crown corporation expenses were offset by lower defence and all other departmental and agency expenses. This component is also quite volatile over the first few months of the fiscal year, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were down 4.1 per cent, as a smaller stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

## April to June 2004: budgetary results

In the first three months of the fiscal year, there was a budgetary surplus of \$2.9 billion, down \$0.7 billion from the surplus of \$3.7 billion reported in the same period of 2003–04.

Budgetary revenues, at \$45.5 billion, were up \$0.5 billion, or 1.0 per cent, as increases in personal income tax and GST revenues were dampened by declines in corporate income tax revenues, EI premiums and other revenues.

- Personal income tax revenues increased by \$1.1 billion, or 5.6 per cent. The year-over-year increase is primarily due to the strong growth in source deductions from employment income, reflecting, in part, strong gains in employment over the past 12 months.
- Corporate income tax revenues were down 2.2 per cent. Although monthly installments were higher on a year-over-year basis, the increase was not sufficient to offset higher refunds related to reassessments of tax liabilities in previous years.
- Excise taxes and duties increased \$0.1 billion, or 1.3 per cent. GST revenues increased \$0.2 billion, or 3.0 per cent, due to higher gross receipts from domestic sales and lower refunds. Sales and excise taxes declined by 2.3 per cent, primarily due to lower energy taxes.
- EI premiums were down 5.2 per cent, reflecting the reduction in premium rates.
- Other revenues declined 16.1 per cent.

On a year-over-year basis, program expenses in the April to June 2004 period, at \$33.9 billion, were up \$1.3 billion, or 4.1 per cent, over the same period of 2003–04, with most of the increase attributable to higher transfers to the provinces for health care and equalization. Public debt charges declined by \$0.1 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$1.3 billion, or 6.1 per cent.

## Revenues and expenses (April-June 2004)

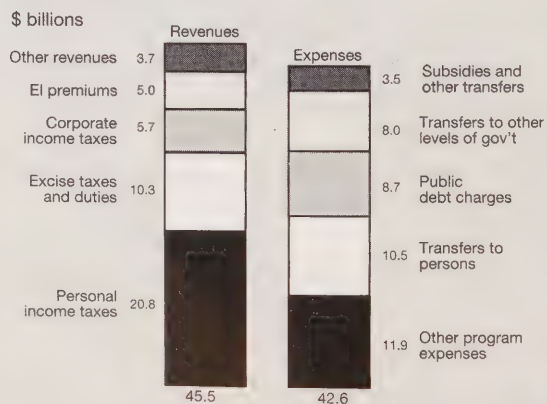


Table 3

## Budgetary expenses

	June		Change	April to June		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,224	2,288	2.9	6,633	6,855	3.3
Employment insurance benefits	1,058	1,013	-4.3	3,571	3,615	1.2
Total	3,282	3,301	0.6	10,204	10,470	2.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			3,163	
Canada Social Transfer		652			1,956	
Health Reform Transfer		125			375	
Canada Health and Social Transfer	1,691	8		5,075	25	
Total	1,691	1,839	8.8	5,075	5,519	8.7
Fiscal transfers	893	1,070	19.8	2,677	3,221	20.3
Alternative Payments for Standing Programs	-191	-253	32.5	-573	-759	32.5
Total	2,393	2,656	11.0	7,179	7,981	11.2
Subsidies and other transfers						
Agriculture	12	65	441.7	19	124	552.6
Foreign Affairs	137	241	75.9	435	576	32.4
Health	80	89	11.3	326	375	15.0
Human Resources Development	110	100	-9.1	341	404	18.5
Indian and Northern Development	343	283	-17.5	1,252	1,212	-3.2
Industry and Regional Development	148	152	2.7	329	384	16.7
Other	226	312	38.1	645	471	-27.0
Total	1,056	1,242	17.6	3,347	3,546	5.9
Total transfer payments	6,731	7,199	7.0	20,730	21,997	6.1
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	102	71	-30.4	366	372	1.6
Canada Mortgage and Housing Corporation	152	195	28.3	570	555	-2.6
Other	120	180	50.0	546	572	4.8
Total	374	446	19.3	1,482	1,499	1.1
Defence	901	856	-5.0	2,552	2,499	-2.1
All other departments and agencies	2,749	2,700	-1.8	7,850	7,951	1.3
Total other program expenses	4,024	4,002	-0.5	11,884	11,949	0.5
<b>Total program expenses</b>	10,755	11,201	4.1	32,614	33,946	4.1
<b>Public debt charges</b>	2,965	2,842	-4.1	8,806	8,666	-1.6
<b>Total budgetary expenses</b>	13,720	14,043	2.4	41,420	42,612	2.9

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Table 1

## Summary statement of transactions

	June		April to June	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	15,431	15,147	45,075	45,535
Expenses				
Program expenses	-10,755	-11,201	-32,614	-33,946
Public debt charges	-2,965	-2,842	-8,806	-8,666
Budgetary balance (deficit/surplus)	1,711	1,104	3,655	2,923
<b>Non-budgetary transactions</b>	-8,882	-5,596	-13,207	-10,126
<b>Financial source/requirement</b>	-7,171	-4,492	-9,552	-7,198
<b>Net change in financing activities</b>	-3,201	-8,917	-530	-7,789
<b>Net change in cash balances</b>	-10,372	-13,409	-10,082	-14,987
<b>Cash balance at end of period</b>			4,621	2,264

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	June			April to June		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenue</b>						
Income taxes						
Personal income tax	7,348	6,894	-6.2	19,699	20,810	5.6
Corporate income tax	1,778	2,125	19.5	5,831	5,702	-2.2
Other income tax revenue	165	267	61.8	665	835	25.6
Total income tax	9,291	9,286	-0.1	26,195	27,347	4.4
Excise taxes and duties						
Goods and services tax	2,312	2,165	-6.4	7,073	7,285	3.0
Customs import duties	216	216	0.0	669	677	1.2
Sales and excise taxes	819	881	7.6	2,345	2,290	-2.3
Air Travellers Security Charge	36	31	-13.9	132	96	-27.3
Total excise taxes and duties	3,383	3,293	-2.7	10,219	10,348	1.3
Total tax revenues	12,674	12,579	-0.7	36,414	37,695	3.5
<b>Employment insurance premiums</b>	1,708	1,603	-6.1	5,241	4,971	-5.2
<b>Other revenues</b>	1,049	965	-8.0	3,420	2,869	-16.1
<b>Total budgetary revenues</b>	15,431	15,147	-1.8	45,075	45,535	1.0



- Transfers to persons advanced by 2.6 per cent. Elderly benefits were up 3.3 per cent while EI benefits increased 1.2 per cent. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits, such as sickness, maternity and paternal benefits, were higher.
- Transfers to other levels of government were up \$0.8 billion, or 11.2 per cent, reflecting higher transfers in support of health and other social programs and increased fiscal transfers. The latter primarily reflects the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program.
- Subsidies and other transfers increased by 5.9 per cent.

Other program expenses increased by 0.5 per cent, as lower year-over-year defence expenses largely offset increases in the two other components.

Public debt charges were down 1.6 per cent, as the impact of a decline in the stock of interest-bearing debt more than offset an increase in the average effective interest rate on that debt.

## Financial requirement of \$7.2 billion for April to June 2004

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary

balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

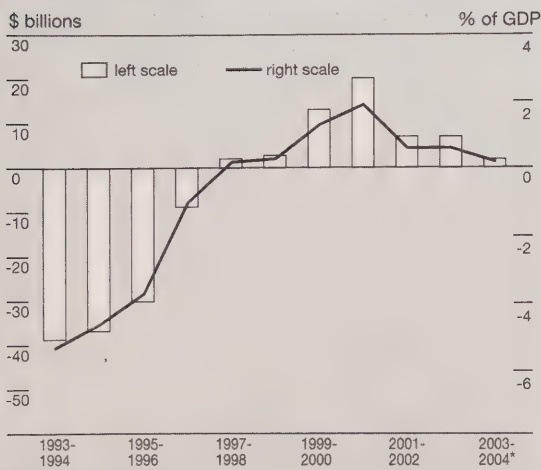
Non-budgetary transactions resulted in a net requirement of \$10.1 billion in the April to June period, down \$3.1 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion).

With a budgetary surplus of \$2.9 billion and a net requirement of \$10.1 billion from non-budgetary transactions, there was a financial requirement of \$7.2 billion in the first three months of 2004–05, down \$2.4 billion from the same period last year.

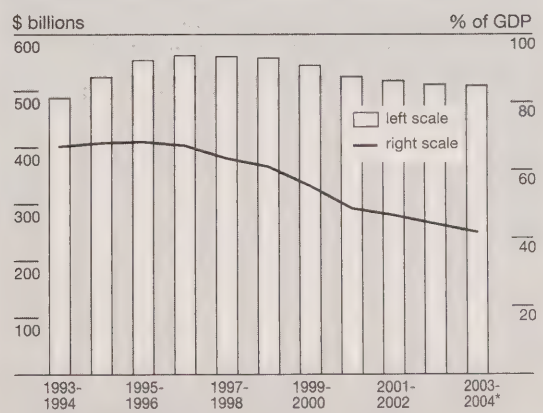
## Net financing activities down \$7.8 billion

The Government lowered its holdings of market debt by \$7.8 billion by the end of June 2004. As a result, to finance the financial requirement of \$7.2 billion, it lowered its cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June stood at \$2.3 billion.

### Budgetary balance



### Federal debt (accumulated deficit)



# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	June		April to June	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	1,711	1,104	3,655	2,923
<b>Non-budgetary transactions</b>				
Capital investing activities	-170	-134	-420	-373
Other investing activities	-121	-275	-445	-122
Pension and other accounts	-24	-80	791	105
Other activities				
Accounts payable, receivables, accruals and allowances	-9,253	-6,004	-14,106	-10,649
Foreign exchange activities	420	671	207	175
Amortization of tangible capital assets	266	226	766	743
Total other activities	-8,567	-5,107	-13,133	-9,731
<b>Total non-budgetary transactions</b>	-8,882	-5,596	-13,207	-10,121
<b>Net financial source/requirement</b>	-7,171	-4,492	-9,552	-7,198

Table 5

## Financial source/requirement and net financing activities

	June		April to June	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Net financial source/requirement</b>	-7,171	-4,492	-9,552	-7,198
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-3,705	-9,867	-3,065	-7,710
Treasury bills	400	800	2,900	800
Canada Savings Bonds	-158	-75	-390	-122
Other	182	-6	177	-14
Total	-3,281	-9,148	-378	-7,046
Foreign currency borrowings	80	231	-152	-743
<b>Net change in financing activities</b>	-3,201	-8,917	-530	-7,789
<b>Change in cash balance</b>	-10,372	-13,409	-10,082	-14,987

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A Publication of the Department of Finance

## Highlights

### July 2004: budgetary surplus of \$1.4 billion

There was a budgetary surplus of \$1.4 billion in July 2004, compared to a surplus of \$12 million in July 2003. This year-over-year improvement in the budgetary surplus is attributable to strong growth in budgetary revenues, up \$1.5 billion or 10.3 per cent, primarily reflecting higher corporate income taxes and excise taxes and duties. Total budgetary expenses were up \$0.1 billion, as slightly higher program expenses offset a decline in public debt charges.

### April to July 2004: budgetary surplus of \$4.4 billion

For the first four months of the 2004-05 fiscal year (April to July), the budgetary surplus is estimated at \$4.4 billion, up \$0.7 billion from the surplus reported in the same period last year. Budgetary revenues were up \$2.0 billion or 3.3 per cent, reflecting gains in most major components. The strength in budgetary revenues reflects the strong growth in the economy witnessed during the first half of 2004. Statistics Canada reported that nominal income, the applicable tax base for federal revenues, increased by 6.7 per cent in the second quarter of 2004 compared to the same period last year. Program expenses were up \$1.5 billion, or 3.4 per cent, primarily due to higher transfer payments, reflecting the impact of previous budget measures. Public debt charges were \$0.2 billion lower.

### July 2004: budgetary results

The July 2004 budgetary surplus is estimated at \$1.4 billion, compared to a surplus of \$12 million in July 2003.

On a year-over-year basis, budgetary revenues, at \$16.1 billion, were up \$1.5 billion, or 10.3 per cent. This increase is primarily attributable to a \$0.7-billion increase in corporate income tax revenues and a \$0.8-billion increase in excise taxes and duties.

- Personal income tax revenues were up \$0.1 billion, or 1.5 per cent, primarily reflecting higher deductions from employment income.
- Corporate income tax revenues increased by \$0.7 billion, or 62.4 per cent, reflecting both strong growth in gross receipts and lower refunds related to reassessments of tax liabilities in previous years.
- Excise taxes and duties increased \$0.8 billion, or 25.9 per cent, with all components higher. Goods and services tax (GST) revenues were up \$0.5 billion, or 20.9 per cent, due to higher GST levied at customs and lower refunds. Customs import duties advanced by \$0.1 billion, while sales and excise taxes increased by \$0.2 billion.
- Employment insurance (EI) premiums were down 11.3 per cent, as the reduction in premium rates

(the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) more than offset the increase in employment and thus the number of people paying premiums.

- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 7.9 per cent. This component is extremely volatile on a monthly basis.

Program expenses in July 2004 were \$11.6 billion, up \$0.2 billion, or 1.4 per cent, from July 2003.

Both transfer payments and other program expenses were marginally higher.

Transfer payments were up \$0.1 billion, or 1.8 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up marginally on a year-over-year basis, as higher elderly benefits were virtually offset by lower EI benefits. Elderly benefits increased 2.7 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments declined 5.3 per cent, reflecting lower regular benefit payments, attributable to the improved labour market situation.





- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.2 billion, or 8.1 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 7.3 per cent from July 2003.
- Subsidies and other transfers declined by 5.8 per cent. This component is extremely volatile on a monthly basis, reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 0.9 per cent, as a decline in Crown corporation expenses was more than offset by higher defence and all other departmental and agency expenses. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were down 2.5 per cent, as a lower stock of interest-bearing debt more than offset an increase in the average effective interest rate on that debt.

## April to July 2004: budgetary results

In the first four months of the fiscal year, there was a budgetary surplus of \$4.4 billion, up \$0.7 billion from the surplus of \$3.7 billion reported in the same period of 2003–04.

Budgetary revenues, at \$61.6 billion, were up \$2.0 billion, or 3.3 per cent, reflecting strong gains in most components of tax revenues (up 6 per cent), dampened slightly by lower EI premiums and other revenues.

- Personal income tax revenues increased by \$1.2 billion, or 4.5 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting, in part, gains in employment over the past 12 months.
- Corporate income tax revenues were up \$0.6 billion, or 8.6 per cent, reflecting strong gains in monthly installments due to higher corporate profits.

- Excise taxes and duties increased by \$1.0 billion, or 7.2 per cent. GST revenues increased by \$0.7 billion, or 7.3 per cent, due to higher gross receipts from domestic sales and at customs as well as lower refunds. Customs import duties advanced by 13.2 per cent, reflecting strong growth in dutiable imports. Sales and excise taxes increased by 5.8 per cent due to higher excise revenues on tobacco and alcohol products, as energy tax revenues were lower.
- EI premiums were down 6.6 per cent, reflecting the reduction in premium rates.
- Other revenues declined by 11.2 per cent.

On a year-over-year basis, program expenses in the April to July 2004 period, at \$45.6 billion, were up \$1.5 billion, or 3.4 per cent, over the same period of 2003–04, with most of the increase attributable to higher transfer payments. Public debt charges declined by \$0.2 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$1.4 billion, or 5.0 per cent.

- Transfers to persons advanced by \$0.3 billion, or 2.0 per cent. Elderly benefits were up 3.2 per cent while EI benefits were marginally lower. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits, such as sickness, maternity and paternal benefits, were higher.
- Transfers to other levels of government were up \$0.6 billion, or 6.5 per cent, reflecting higher transfers in support of health and other social programs, due to recent budget measures, and increased fiscal transfers. The latter primarily reflects the impact of recoveries in 2003–04 related to overpayments in previous years under the equalization program, which depressed

## Revenues and expenses

(April-July 2004)

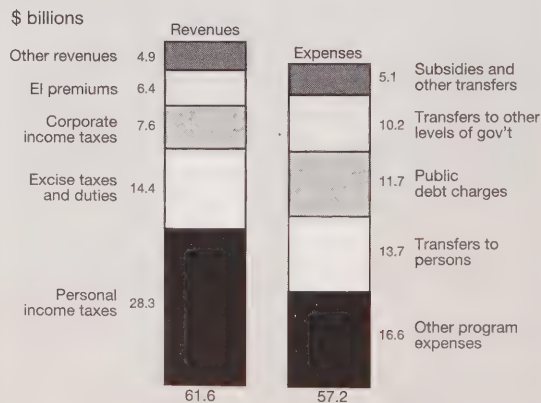


Table 3

## Budgetary expenses

	July		Change	April to July		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,214	2,273	2.7	8,847	9,127	3.2
Employment insurance benefits	1,036	981	-5.3	4,607	4,597	-0.2
Total	3,250	3,254	0.1	13,454	13,724	2.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			4,217	
Canada Social Transfer		652			2,608	
Health Reform Transfer		125			500	
Canada Health and Social Transfer	1,691			6,766	25	
Total	1,691	1,831	8.3	6,766	7,350	8.6
Fiscal transfers	879	943	7.3	3,555	3,790	6.6
Alternative Payments for Standing Programs	-211	-225	6.6	-784	-984	25.5
Total	2,359	2,549	8.1	9,537	10,156	6.5
Subsidies and other transfers						
Agriculture	27	29	7.4	46	153	232.6
Foreign Affairs	159	151	-5.0	593	727	22.6
Health	191	233	22.0	517	608	17.6
Human Resources Development	85	88	3.5	427	492	15.2
Indian and Northern Development	312	340	9.0	1,564	1,552	-0.8
Industry and Regional Development	128	110	-14.1	457	494	8.1
Other	362	240	-33.7	1,004	1,084	8.0
Total	1,264	1,191	-5.8	4,608	5,110	10.9
Total transfer payments	6,873	6,994	1.8	27,599	28,990	5.0
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	51	94	84.3	417	466	11.8
Canada Mortgage and Housing Corporation	166	170	2.4	737	725	-1.6
Other	192	122	-36.5	737	695	-5.7
Total	409	386	-5.6	1,891	1,886	-0.3
Defence	1,021	1,070	4.8	3,576	3,568	-0.2
All other departments and agencies	3,138	3,154	0.5	10,989	11,109	1.1
Total other program expenses	4,568	4,610	0.9	16,456	16,563	0.7
<b>Total program expenses</b>	11,441	11,604	1.4	44,055	45,553	3.4
<b>Public debt charges</b>	3,108	3,031	-2.5	11,914	11,696	-1.8
<b>Total budgetary expenses</b>	14,549	14,635	0.6	55,969	57,249	2.3

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	July		April to July	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	14,561	16,063	59,636	61,600
Expenses				
Program expenses	-11,441	-11,604	-44,055	-45,553
Public debt charges	-3,108	-3,031	-11,914	-11,696
Budgetary balance (deficit/surplus)	12	1,439	3,667	4,351
<b>Non-budgetary transactions</b>	-2,218	-88	-15,427	-10,209
<b>Financial source/requirement</b>	-2,206	1,340	-11,760	-5,858
<b>Net change in financing activities</b>	988	821	458	-6,967
<b>Net change in cash balances</b>	-1,218	2,161	-11,302	-12,825
<b>Cash balance at end of period</b>			3,395	4,425

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	July			April to July		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenue</b>						
Income taxes						
Personal income tax	7,345	7,453	1.5	27,045	28,265	4.5
Corporate income tax	1,169	1,899	62.4	7,000	7,600	8.6
Other income tax revenue	317	266	-16.1	982	1,101	12.1
Total income tax	8,831	9,618	8.9	35,027	36,966	5.5
Excise taxes and duties						
Goods and services tax	2,257	2,728	20.9	9,330	10,013	7.3
Customs import duties	210	317	51.0	879	995	13.2
Sales and excise taxes	726	960	32.2	3,072	3,250	5.8
Air Travellers Security Charge	15	35	133.3	147	131	-10.9
Total excise taxes and duties	3,208	4,040	25.9	13,428	14,389	7.2
Total tax revenues	12,039	13,658	13.4	48,455	51,355	6.0
<b>Employment insurance premiums</b>	1,652	1,466	-11.3	6,893	6,438	-6.6
<b>Other revenues</b>	870	939	7.9	4,288	3,807	-11.2
<b>Total budgetary revenues</b>	14,561	16,063	10.3	59,636	61,600	3.3



spending last year. Misclassifications between fiscal transfers and subsidies and other transfers resulted in an overstatement of fiscal transfers in the April to June 2004 period of \$374 million and an understatement of subsidies and other transfers of a comparable amount. This was corrected in July.

- Subsidies and other transfers increased by \$0.5 billion, or 10.9 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$0.1 billion, or 0.7 per cent, as slightly lower year-over-year Crown corporation and defence expenses were offset by an increase in all other departmental and agency expenses.

Public debt charges were down 1.8 per cent, as a decline in the stock of interest-bearing debt more than offset an increase in the average effective interest rate on that debt.

## Financial requirement of \$5.9 billion for April to July 2004

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and

collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

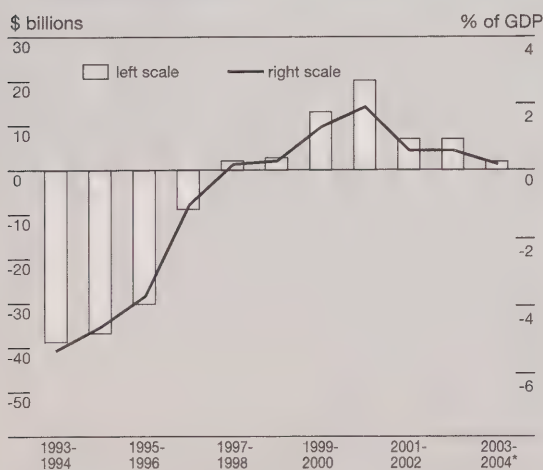
Non-budgetary transactions resulted in a net requirement of \$10.2 billion in the April to July period, down \$5.2 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers in the April to July 2003 period to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway Corporation (\$600 million) and the Canada Foundation for Innovation (\$500 million).

With a budgetary surplus of \$4.4 billion and a net requirement of \$10.2 billion from non-budgetary transactions, there was a financial requirement of \$5.9 billion in the first four months of 2004–05, down \$5.9 billion from the same period last year.

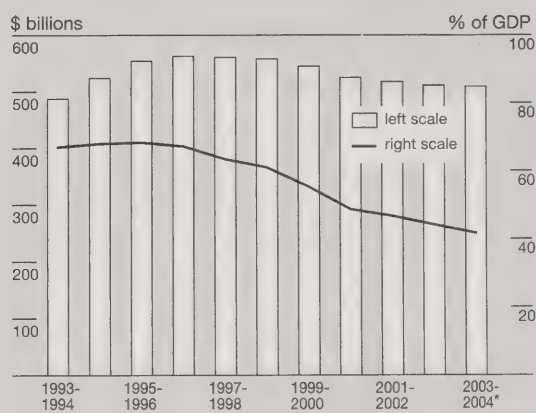
## Net financing activities down \$7.0 billion

The Government lowered its holdings of market debt by \$7.0 billion by the end of July 2004, primarily by reducing its holdings of marketable bonds. As a result, to finance the financial requirement of \$5.9 billion, it lowered its cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at \$4.4 billion.

### Budgetary balance



### Federal debt (accumulated deficit)



# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	July		April to July	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	12	1,428	3,667	4,351
<b>Non-budgetary transactions</b>				
Capital investing activities	-216	-6	-636	-379
Other investing activities	44	-309	-400	-431
Pension and other accounts	-709	-721	81	-617
Other activities				
Accounts payable, receivables, accruals and allowances	-1,775	586	-15,884	-10,067
Foreign exchange activities	205	104	412	279
Amortization of tangible capital assets	233	258	1,000	1,006
Total other activities	-1,337	948	-14,472	-8,766
<b>Total non-budgetary transactions</b>	-2,218	-88	-15,427	-10,209
<b>Net financial source/requirement</b>	-2,206	1,340	-11,760	-5,858

Table 5

## Financial source/requirement and net financing activities

	July		April to July	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	-2,206	1,340	-11,760	-5,858
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-1,729	278	-4,794	-7,432
Treasury bills	2,900	1,000	5,800	1,800
Canada Savings Bonds	-99	-61	-489	-183
Other	-2	-5	176	-19
Total	1,070	1,212	693	-5,834
Foreign currency borrowings	-82	-391	-235	-1,133
<b>Net change in financing activities</b>	988	821	458	-6,967
<b>Change in cash balance</b>	-1,218	2,161	-11,302	-12,825

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September 2004

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### August 2004: budgetary surplus of \$306 million

There was a budgetary surplus of \$306 million in August 2004, up slightly from the surplus of \$103 million recorded in August 2003. Revenues were up \$0.7 billion compared to August 2003, while program expenses were up \$0.6 billion. Public debt charges were \$0.1 billion lower than during the same month last year.

### April to August 2004: budgetary surplus of \$4.7 billion

For the first five months of the 2004–05 fiscal year (April to August), the budgetary surplus is estimated at \$4.7 billion, up \$0.9 billion from the surplus reported in the same period last year. Budgetary revenues were up \$2.6 billion, or 3.6 per cent, reflecting gains in most major components, consistent with the strong growth in the economy in the first half of 2004. Program expenses were up \$2.1 billion, or 3.8 per cent, primarily due to higher transfer payments, reflecting the impact of previous budget measures. Public debt charges were \$0.3 billion lower.

### August 2004: budgetary results

The August 2004 budgetary surplus is estimated at \$306 million, up from \$103 million in August 2003.

On a year-over-year basis, budgetary revenues, at \$14.6 billion, were up \$0.7 billion, or 4.9 per cent. This increase is primarily attributable to a \$0.6-billion increase in personal income tax revenues and a \$0.4-billion increase in excise taxes and duties, offset somewhat by declines in employment insurance premium revenues and other revenues.

- Personal income tax revenues increased by \$0.6 billion, or 10.1 per cent, primarily due to strong growth in source deductions.
- Corporate income tax revenues were up 3.8 per cent, as strong gains in monthly installments were partially offset by an increase in refunds related to prior taxation years.
- Excise taxes and duties increased by \$0.4 billion, or 9.8 per cent. This increase reflects strong growth in goods and services tax (GST) revenues, somewhat offset by declines in

customs import duties and sales and excise taxes. GST revenues increased \$0.6 billion, or about 27 per cent, due to similar growth in gross receipts from both domestic sales and customs. Customs import duties were 11.5 per cent lower due in part to an increase in refunds. Sales and excise taxes declined 21.1 per cent, partly reflecting the ongoing effect of higher energy prices on energy demand. Other excise and sales taxes were generally lower than last year.

- Employment insurance (EI) premiums were down 11.3 per cent, as the reduction in premium rates (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, which consist of revenues from Crown corporations,<sup>a</sup> sales of goods and services and foreign exchange revenues, declined 17.7 per cent. This component is extremely volatile on a monthly basis.



# The Fiscal Monitor

On a year-over-year basis, program expenses in August 2004 were \$11.4 billion, up \$0.6 billion, or 5.5 per cent, from August 2003. Higher EI benefits and equalization entitlements accounted for most of the increase.

Transfer payments were up \$0.5 billion, or 6.9 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up strongly on a year-over-year basis. Elderly benefits increased 3.4 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments increased 23.5 per cent, reflecting the timing of payments in August 2004 compared to the same month in 2003. Some of this increase should be reversed in September 2004.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (the Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.3 billion, or 11.6 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 17.5 per cent from August 2003, primarily reflecting the impact of recoveries in 2003–04 of overpayments in previous years.
- Subsidies and other transfers were down 11.6 per cent. This component is extremely volatile on a monthly basis, reflecting the timing of payments. Negative amounts in Agriculture and Human Resources Development for August 2004 reflect corrections to estimates for previous months.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence.

On a year-over-year basis, these expenses were up 3.3 per cent, as a decline in Crown corporation and defence-related expenses was more than offset by higher expenses in all other departments and agencies. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were down 4.0 per cent, as a lower stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

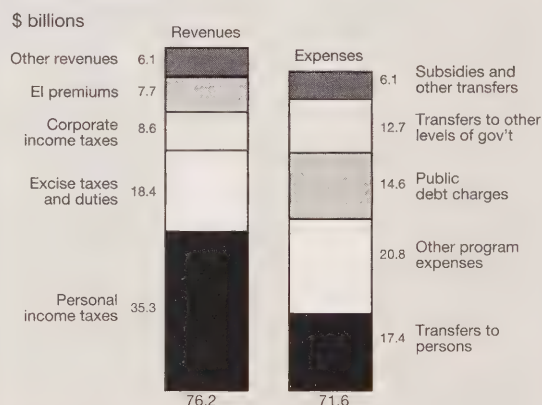
## April to August 2004: budgetary results

In the first five months of the fiscal year, there was a budgetary surplus of \$4.7 billion, up \$0.9 billion from the surplus of \$3.8 billion reported in the same period of 2003–04.

Budgetary revenues, at \$76.2 billion, were up \$2.6 billion, or 3.6 per cent, reflecting strong gains in most components of tax revenue, dampened slightly by lower EI premiums and other revenues. Tax revenues were up 6.6 per cent.

- Personal income tax revenues increased by \$1.9 billion, or 5.6 per cent, primarily due to strong growth in source deductions from employment income, reflecting, in part, gains in employment.

### Revenues and expenses (April-August 2004)



- Corporate income tax revenues were up \$0.6 billion, or 8.0 per cent, consistent with ongoing strength in corporate profits.
- Excise taxes and duties increased by \$1.3 billion, or 7.7 per cent, primarily due to growth in GST revenues, which were up 11.2 per cent. Customs import duties were also up, partially offset by declines in sales and excise taxes and revenues related to the Air Travellers Security Charge.
- EI premiums were down \$0.6 billion, or 7.4 per cent.
- Other revenues declined 12.7 per cent.

On a year-over-year basis, program expenses in the April to August 2004 period, at \$57.0 billion, were up 3.8 per cent over the same period of 2003-04, with most of the increase attributable to higher transfer payments. Public debt charges were \$0.3 billion lower than in the first five months of 2003-04.

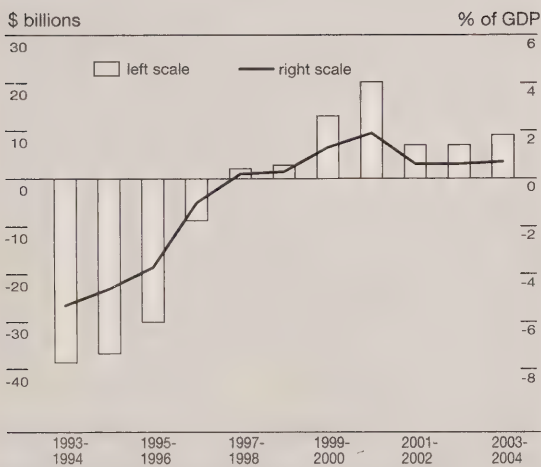
Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$1.9 billion, or 5.4 per cent.

- Transfers to persons advanced by \$0.6 billion, or 3.6 per cent. Elderly benefits were up 3.2 per cent while EI benefits were up 4.3 per cent. Within EI benefits, most of the increase was in special benefits, such as sickness, maternity and parental benefits.
- Transfers to other levels of government were up \$0.9 billion, or 7.5 per cent, reflecting higher transfers in support of health and other social programs due to the 2003 health accord, and increased fiscal transfers. The latter primarily reflects the impact on the 2003-04 results of recoveries related to overpayments in previous years under the equalization program.
- Subsidies and other transfers increased by \$0.4 billion, or 6.5 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$0.2 billion, or 1.2 per cent, as lower expenses related to Crown corporations and defence were offset by an increase in all other departmental and agency expenses.

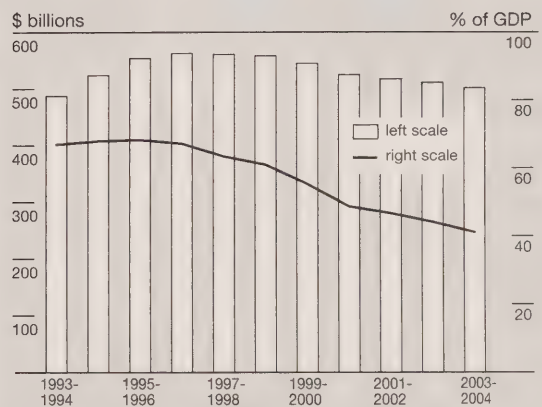
Public debt charges were down \$0.3 billion, reflecting the impact of a decline in the stock of interest-bearing debt.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

## **Financial requirement of \$4.1 billion for April to August 2004**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$8.8 billion in the April to August period, down \$6.9 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers in the

April to August 2003 period to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway (\$600 million) and the Canada Foundation for Innovation (\$500 million).

With a budgetary surplus of \$4.7 billion and a net requirement of \$8.8 billion from non-budgetary transactions, there was a financial requirement of \$4.1 billion in the first five months of 2004–05, down \$7.8 billion from the same period last year.

## **Net financing activities down \$4.1 billion**

The Government reduced market debt by \$4.1 billion by the end of August 2004, largely by reducing its holdings of marketable bonds. As a result, to finance both the reduction in market debt and the financial requirement of \$4.1 billion, the Government lowered its cash balances by \$8.3 billion. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of August stood at \$9.0 billion.



Table 1

## Summary statement of transactions

	August		April to August	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	13,935	14,617	73,571	76,214
Expenses				
Program expenses	-10,799	-11,398	-54,854	-56,949
Public debt charges	-3,033	-2,913	-14,947	-14,609
Budgetary balance (deficit/surplus)	103	306	3,770	4,656
<b>Non-budgetary transactions</b>	-287	1,407	-15,711	-8,802
<b>Financial source/requirement</b>	-184	1,713	-11,941	-4,146
<b>Net change in financing activities</b>	5,123	2,856	5,580	-4,111
<b>Net change in cash balances</b>	4,939	4,569	-6,361	-8,257
<b>Cash balance at end of period</b>			8,336	8,994

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	August			April to August		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,428	7,076	10.1	33,472	35,340	5.6
Corporate income tax	936	972	3.8	7,936	8,572	8.0
Other income tax revenue	197	218	10.7	1,179	1,319	11.9
Total income tax	7,561	8,266	9.3	42,587	45,231	6.2
Excise taxes and duties						
Goods and services tax	2,290	2,906	26.9	11,620	12,919	11.2
Customs import duties	349	309	-11.5	1,228	1,304	6.2
Sales and excise taxes	1,010	797	-21.1	4,080	4,047	-0.8
Air Travellers Security Charge	32	28	-12.5	179	159	-11.2
Total excise taxes and duties	3,681	4,040	9.8	17,107	18,429	7.7
Total tax revenues	11,242	12,306	9.5	59,694	63,660	6.6
<b>Employment insurance premiums</b>	1,475	1,309	-11.3	8,368	7,746	-7.4
<b>Other revenues</b>	1,218	1,002	-17.7	5,509	4,808	-12.7
<b>Total budgetary revenues</b>	13,935	14,617	4.9	73,571	76,214	3.6

# The Fiscal Monitor

Table 3

## Budgetary expenses

	August		Change	April to August		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,233	2,310	3.4	11,080	11,437	3.2
Employment insurance benefits	1,075	1,328	23.5	5,682	5,925	4.3
Total	3,308	3,638	10.0	16,762	17,362	3.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			5,271	
Canada Social Transfer		652			3,260	
Health Reform Transfer		125			625	
Canada Health and Social Transfer	1,692			8,458	25	
Total	1,692	1,831	8.2	8,458	9,181	8.5
Fiscal transfers	789	927	17.5	4,344	4,717	8.6
Alternative Payments for Standing Programs	-211	-225	6.6	-995	-1,209	21.5
Total	2,270	2,533	11.6	11,807	12,689	7.5
Subsidies and other transfers						
Agriculture	211	-8	-103.8	257	145	-43.6
Foreign Affairs	104	167	60.6	697	894	28.3
Health	99	87	-12.1	616	695	12.8
Human Resources Development	80	-95	-218.8	507	397	-21.7
Indian and Northern Development	313	337	7.7	1,877	1,889	0.6
Industry and Regional Development	187	211	12.8	643	705	9.6
Other	116	282	143.1	1,120	1,366	22.0
Total	1,110	981	-11.6	5,717	6,091	6.5
Total transfer payments	6,688	7,152	6.9	34,286	36,142	5.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	74	85	14.9	491	551	12.2
Canada Mortgage and Housing Corporation	172	140	-18.6	909	865	-4.8
Other	178	178	0.0	915	872	-4.7
Total	424	403	-5.0	2,315	2,288	-1.2
Defence	1,117	1,047	-6.3	4,692	4,615	-1.6
All other departments and agencies	2,570	2,796	8.8	13,561	13,904	2.5
Total other program expenses	4,111	4,246	3.3	20,568	20,807	1.2
<b>Total program expenses</b>	10,799	11,398	5.5	54,854	56,949	3.8
<b>Public debt charges</b>	3,033	2,913	-4.0	14,947	14,609	-2.3
<b>Total budgetary expenses</b>	13,832	14,311	3.5	69,801	71,558	2.5

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# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	August		April to August	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	103	306	3,770	4,656
<b>Non-budgetary transactions</b>				
Capital investing activities	-135	-27	-771	-406
Other investing activities	-129	-272	-529	-704
- Pension and other accounts	111	104	192	-513
Other activities				
Accounts payable, receivables, accruals and allowances	-631	1,878	-16,512	-8,188
Foreign exchange activities	-25	-427	387	-148
Amortization of tangible capital assets	522	151	1,522	1,157
Total other activities	-134	1,602	-14,603	-7,179
<b>Total non-budgetary transactions</b>	-287	1,407	-15,711	-8,802
<b>Net financial source/requirement</b>	-184	1,713	-11,941	-4,146

Table 5

## Financial source/requirement and net financing activities

	August		April to August	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Net financial source/requirement</b>	-184	1,713	-11,941	-4,146
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,451	2,767	-3,343	-4,665
Treasury bills	3,900	100	9,700	1,900
Canada Savings Bonds	-89	-55	-578	-238
Other	-1	-5	174	-24
Total	5,261	2,807	5,953	-3,027
Foreign currency borrowings	-138	49	-373	-1,084
<b>Net change in financing activities</b>	5,123	2,856	5,580	-4,111
<b>Change in cash balance</b>	4,939	4,569	-6,361	-8,257



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	August 31, 2004	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	67,758	-12,206
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	274,115	-4,665
Treasury bills	113,378	115,278	1,900
Canada Savings Bonds	21,330	21,092	-238
Other	3,427	3,404	-23
Subtotal	416,915	413,889	-3,026
Payable in foreign currencies	20,542	19,458	-1,084
Obligations related to capital leases	2,774	2,740	-34
Total unmaturred debt	440,231	436,087	-4,144
Pension and other accounts			
Public sector pensions	127,560	128,330	770
Other employee and veteran future benefits	39,367	39,710	343
Canada Pension Plan (net of securities)	7,483	6,677	-806
Other pension and other accounts	6,488	6,045	-443
Total pension and other accounts	180,898	180,761	-137
Total interest-bearing debt	621,129	616,848	-4,281
<b>Total liabilities</b>	701,093	684,606	-16,487
<b>Financial assets</b>			
Cash and accounts receivable	70,921	59,107	-11,814
Foreign exchange accounts	44,313	44,460	147
Loans, investments and advances (net of allowances)	29,548	30,252	704
Total financial assets	144,782	133,819	-10,963
<b>Net debt</b>	556,311	550,787	-5,524
<b>Non-financial assets</b>	54,817	53,949	-868
<b>Federal debt (accumulated deficit)</b>	501,494	496,838	-4,656

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*Ce document est également offert en français.*

October 2004

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2004: budgetary surplus of \$3.3 billion

There was a budgetary surplus of \$3.3 billion in September 2004, up significantly from a deficit of \$728 million recorded in September 2003. This year-over-year higher surplus primarily reflects the net gain from the sale of the federal government's remaining shares in Petro-Canada. In addition, the labour disruptions in September at the Canada Revenue Agency resulted in delays in the processing of refunds, thereby resulting in a temporary increase in revenues. Revenues were up \$3.5 billion compared to September 2003, while program expenses were down \$0.4 billion. Public debt charges were \$0.1 billion lower than during the same month last year.

### April to September 2004: budgetary surplus of \$7.9 billion

For the first six months of the 2004–05 fiscal year (April to September), the budgetary surplus is estimated at \$7.9 billion, up \$4.9 billion from the surplus reported in the same period last year. Budgetary revenues were up \$6.1 billion, or 7.1 per cent. This reflects the inclusion of the net proceeds from the sale of the Government's remaining shares in Petro-Canada as well as increases in most revenue components, consistent with the strong growth in the economy in the first half of 2004. Program expenses were up \$1.7 billion, or 2.6 per cent, primarily due to higher transfer payments, reflecting the impact of previous budget measures. Public debt charges were \$0.4 billion lower.

**Note to Readers:** Caution should be exercised in interpreting the year-to-date fiscal results. The revenue data reported for September and the fiscal year to date were affected by the recent federal public service labour disruption. Revenues are in some instances overstated due to fewer refunds having been processed. The labour disruption will also affect the October 2004 results, but the impact should unwind over the coming months as the Canada Revenue Agency catches up with the processing of refunds. In addition, a number of proposed policy initiatives, including the recent federal-provincial/territorial agreements on health care, equalization and Territorial Formula Financing, will only be reflected in the monthly fiscal results once enabling legislation receives Royal Assent.

### September 2004: budgetary results

The September 2004 budgetary surplus was estimated at \$3.3 billion, up from a deficit of \$728 million in September 2003.

On a year-over-year basis, budgetary revenues, at \$16.9 billion, were up \$3.5 billion, or 26.2 per cent. This increase is mostly attributable to the net proceeds from the sale of the federal government's remaining shares in Petro-Canada. There were also increases in personal income tax (\$0.7 billion) and

corporate income tax (\$0.5 billion) revenues, offset somewhat by a decline in employment insurance (EI) premium revenues (\$0.2 billion). Excise taxes and duties remained flat on a year-over-year basis.

- Personal income tax revenues increased by \$0.7 billion, or 10.7 per cent. The year-over-year increase is primarily attributable to growth in source deductions and higher instalment payments.



- Corporate income tax revenues were up \$0.5 billion, or 46.9 per cent, reflecting fewer refunds processed during the month of September due to the public service labour disruption. For example, gross receipts in September were up about 12 per cent, but a 27-per-cent fall-off in refunds lifted net receipts by 46.9 per cent. Some of these higher net receipts will be reversed in the coming months.
- Excise taxes and duties were flat, as a decline in customs import duties was almost fully offset by increases in other excise taxes and duties. Goods and services tax (GST) revenues remained flat on a year-over-year basis, although GST refunds were down significantly due to the public service labour disruption.
- EI premiums were down 12.0 per cent, reflecting the impact of the lower premium rate (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003), which more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$2.5 billion due to the sale of the federal government's remaining shares in Petro-Canada. Without this sale, other revenues would have declined in September.

Program expenses in September 2004 were \$10.8 billion, down \$0.4 billion, or 3.4 per cent, from September 2003. Lower EI benefits (down \$0.3 billion) and other program expenses (down \$0.4 billion) more than offset increases in transfers to other levels of government and subsidies and other transfers (up \$0.3 billion).

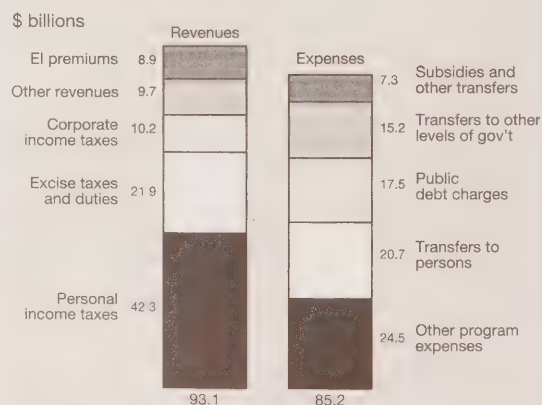
Total transfer payments were up \$0.1 billion, or 0.8 per cent, in September 2004.

- Major transfers to persons, consisting of elderly and EI benefits, were down \$0.3 billion on a year-over-year basis. Elderly benefits increased 3.2 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefits fell by 25.2 per cent, largely due to the timing of payments in September 2004 compared to the same month in 2003, and partly due to a decline in the number of unemployed persons.

- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up 8.3 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 8.0 per cent from September 2003, primarily reflecting the impact of recoveries in 2003-04 for overpayments in previous years under the equalization program.
- Subsidies and other transfers were up 12.6 per cent. This component is extremely volatile on a monthly basis, reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were down 10.4 per cent. Other program expenses were affected by the federal public service labour disruption in September, which reduced operating costs. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

**Revenues and expenses**  
(April-September 2004)





Public debt charges were down 3.5 per cent, as a decline in the stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

## April to September 2004: budgetary results

In the first six months of the fiscal year, there was a budgetary surplus of \$7.9 billion, up \$4.9 billion from the surplus of \$3.0 billion reported in the same period of 2003–04. Over half of the increase in the surplus relates to one-time factors.

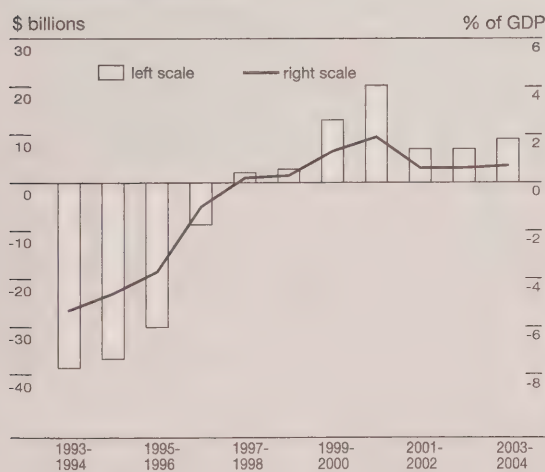
Budgetary revenues, at \$93.1 billion, were up \$6.1 billion or 7.1 per cent. This increase reflects gains in tax revenues and higher other revenues, including the sale of the federal government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums. Tax revenues were up \$5.2 billion, or 7.3 per cent. However, as noted above, the labour disruption in the federal public service in September has raised both September and year-to-date tax revenues due to a lower volume of refunds processed. This impact should largely unwind in the coming months.

- Personal income tax revenues increased by \$2.5 billion, or 6.4 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, partly reflecting gains in employment.

- Corporate income tax revenues were up \$1.2 billion, or 12.8 per cent, reflecting in part the lower volume of refunds processed in September 2004. In addition, the monthly results are affected by remittance procedures. Corporations are required to remit monthly instalments based on their previous year's actual tax liabilities or their current year's estimated liabilities, with settlement payments made within 60 days of the close of their taxation year. Given the large increase in settlement payments in 2003–04, reflecting the increase in corporate profits in 2003, the current monthly instalments are more reflective of the increase in the tax liability last year than an increase in the current year.
- Excise taxes and duties increased by \$1.3 billion, or 6.4 per cent, primarily due to growth in GST revenues, which were up 9.3 per cent. Customs import duties were up slightly, while there was a slight decline in the Air Travellers Security Charge.
- EI premiums were down \$0.8 billion, or 8.0 per cent.
- Other revenues increased \$1.8 billion, or 27.2 per cent, reflecting the sale of the Government's remaining shares of Petro-Canada.

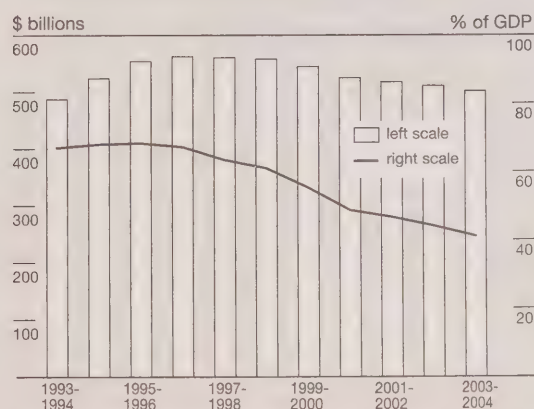
On a year-over-year basis, program expenses in the April to September 2004 period were up 2.6 per cent to \$67.7 billion due to higher transfers. Public debt charges were \$0.4 billion lower than in the first six months of 2003–04.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$1.9 billion, or 4.6 per cent.

- Transfers to persons advanced by \$0.3 billion, or 1.6 per cent. Elderly benefits were up 3.2 per cent while EI benefits were down 1.4 per cent. Within EI benefits, an increase in special benefits, such as sickness, maternity and parental benefits, was offset by a decline in regular benefits, reflecting the improvement in the labour market.
- Transfers to other levels of government were up \$1.1 billion, or 7.6 per cent, reflecting higher transfers in support of health and other social programs resulting from the February 2003 First Ministers' Accord on Health Care Renewal, as well as increased fiscal transfers. Fiscal transfers were up 8.5 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program.
- Subsidies and other transfers increased by \$0.5 billion, or 7.4 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses fell by \$0.2 billion, or 0.8 per cent, due to lower expenses related to Crown corporations and all departments and agencies except defence, reflecting lower operating costs related to the federal public service labour disruption.

Public debt charges were down \$0.4 billion, as a decline in the stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

## **Financial requirement of \$1.0 billion for April to September 2004**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to

the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$8.9 billion in the April to September period, down \$4.7 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers in the April to September 2003 period to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway (\$600 million) and the Canada Foundation for Innovation (\$500 million).

With a budgetary surplus of \$7.9 billion and a net requirement of \$8.9 billion from non-budgetary transactions, there was a financial requirement of \$1.0 billion in the first six months of 2004–05, down \$9.6 billion from the same period last year.

## **Net financing activities down \$10.6 billion**

The Government reduced market debt by \$10.6 billion by the end of September 2004, largely by reducing its holdings of marketable bonds. Given the reduction in market debt and the financial requirement of \$1.0 billion, the Government lowered its cash balances by \$11.5 billion. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September stood at \$5.7 billion.

Table 1

## Summary statement of transactions

	September		April to September	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,370	16,873	86,940	93,086
Expenses				
Program expenses	-11,128	-10,753	-65,982	-67,702
Public debt charges	-2,970	-2,866	-17,916	-17,476
Budgetary balance (deficit/surplus)	-728	3,254	3,042	7,908
<b>Non-budgetary transactions</b>	2,075	-111	-13,629	-8,881
<b>Financial source/requirement</b>	1,347	3,143	-10,587	-973
<b>Net change in financing activities</b>	-5,708	-6,431	-140	-10,576
<b>Net change in cash balances</b>	-4,361	-3,288	-10,727	-11,549
<b>Cash balance at end of period</b>			3,973	5,701

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	September			April to September		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,307	6,979	10.7	39,780	42,319	6.4
Corporate income tax	1,122	1,648	46.9	9,058	10,220	12.8
Other income tax revenue	171	181	5.8	1,350	1,500	11.1
Total income tax	7,600	8,808	15.9	50,188	54,039	7.7
Excise taxes and duties						
Goods and services tax	2,368	2,369	0.0	13,988	15,288	9.3
Customs import duties	317	277	-12.6	1,545	1,581	2.3
Sales and excise taxes	790	824	4.3	4,870	4,871	0.0
Air Travellers Security Charge	33	35	6.1	212	194	-8.5
Total excise taxes and duties	3,508	3,505	-0.1	20,615	21,934	6.4
Total tax revenues	11,108	12,313	10.8	70,803	75,973	7.3
<b>Employment insurance premiums</b>	1,322	1,163	-12.0	9,689	8,910	-8.0
<b>Other revenues</b>	940	3,397	261.4	6,448	8,203	27.2
<b>Total budgetary revenues</b>	13,370	16,873	26.2	86,940	93,086	7.1



# The Fiscal Monitor

Table 3

## Budgetary expenses

	September		Change	April to September		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,244	2,315	3.2	13,324	13,752	3.2
Employment insurance benefits	1,352	1,011	-25.2	7,035	6,935	-1.4
Total	3,596	3,326	-7.5	20,359	20,687	1.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			6,325	
Canada Social Transfer		652			3,912	
Health Reform Transfer		125			750	
Canada Health and Social Transfer	1,692			10,150	25	-99.8
Fiscal transfers	858	927	8.0	5,202	5,645	8.5
Alternative Payments for Standing Programs	-211	-225	6.6	-1,205	-1,433	18.9
Total	2,339	2,533	8.3	14,147	15,224	7.6
Subsidies and other transfers						
Agriculture	112	88	-21.4	369	232	-37.1
Foreign Affairs	133	129	-3.0	830	1,023	23.3
Health	92	179	94.6	708	874	23.4
Human Resources Development	126	102	-19.0	633	499	-21.2
Indian and Northern Development	281	302	7.5	2,158	2,192	1.6
Industry and Regional Development	69	122	76.8	712	827	16.2
Other	237	260	9.7	1,358	1,625	19.7
Total	1,050	1,182	12.6	6,768	7,272	7.4
Total transfer payments	6,985	7,041	0.8	41,274	43,183	4.6
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	92	109	18.5	583	660	13.2
Canada Mortgage and Housing Corporation	166	170	2.4	1,074	1,035	-3.6
Other	157	116	-26.1	1,073	988	-7.9
Total	415	395	-4.8	2,730	2,683	-1.7
Defence	876	1,040	18.7	5,567	5,655	1.6
All other departments and agencies	2,852	2,277	-20.2	16,411	16,181	-1.4
Total other program expenses	4,143	3,712	-10.4	24,708	24,519	-0.8
<b>Total program expenses</b>	11,128	10,753	-3.4	65,982	67,702	2.6
<b>Public debt charges</b>	2,970	2,866	-3.5	17,916	17,476	-2.5
<b>Total budgetary expenses</b>	14,098	13,619	-3.4	83,898	85,178	1.5

Table 4

## Budgetary balance and financial source/requirement

	September		April to September	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-728	3,254	3,042	7,908
<b>Non-budgetary transactions</b>				
Capital investing activities	-175	-180	-1,151	-471
Other investing activities	-832	-378	-1,361	-1,082
Pension and other accounts	371	-504	824	-640
Other activities				
Accounts payable, receivables, accruals and allowances	3,026	923	-13,535	-7,725
Foreign exchange activities	-219	-161	168	-309
Amortization of tangible capital assets	-96	189	1,426	1,346
Total other activities	2,711	951	-11,941	-6,688
<b>Total non-budgetary transactions</b>	2,075	-111	-13,629	-8,881
<b>Net financial source/requirement</b>	1,347	3,143	-10,587	-973

Table 5

## Financial source/requirement and net financing activities

	September		April to September	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	1,347	3,143	-10,587	-973
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-3,758	-4,813	-7,101	-9,478
Treasury bills	-2,200	-1,500	7,500	400
Canada Savings Bonds	-74	-30	-652	-268
Other	-1	-1	173	-25
Total	-6,033	-6,344	-80	-9,371
Foreign currency borrowings	325	-83	-48	-1,167
Total	-5,708	-6,427	-128	-10,538
Obligations related to capital leases	0	-4	-12	-38
<b>Net change in financing activities</b>	-5,708	-6,431	-140	-10,576
<b>Change in cash balance</b>	-4,361	-3,288	-10,727	-11,549

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	September 30, 2004	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	68,154	-11,810
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	269,302	-9,478
Treasury bills	113,378	113,778	400
Canada Savings Bonds	21,330	21,062	-268
Other	3,427	3,402	-25
Subtotal	416,915	407,544	-9,371
Payable in foreign currencies	20,542	19,375	-1,167
Obligations related to capital leases	2,774	2,736	-38
Total unmaturing debt	440,231	429,655	-10,576
Pension and other accounts			
Public sector pensions	127,560	129,598	2,038
Other employee and veteran future benefits	39,367	39,518	151
Canada Pension Plan (net of securities)	7,483	5,085	-2,398
Other pension and other accounts	6,488	6,057	-431
Total pension and other accounts	180,898	180,258	-640
Total interest-bearing debt	621,129	609,913	-11,216
<b>Total liabilities</b>	701,093	678,067	-23,026
<b>Financial assets</b>			
Cash and accounts receivable	70,921	55,288	-15,633
Foreign exchange accounts	44,313	44,622	309
Loans, investments and advances (net of allowances)	29,548	30,630	1,082
Total financial assets	144,782	130,540	-14,242
<b>Net debt</b>	556,311	547,527	-8,784
<b>Non-financial assets</b>	54,818	53,942	-876
<b>Federal debt (accumulated deficit)</b>	501,493	493,585	-7,908



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November 2004



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### October 2004: budgetary surplus of \$1.1 billion

There was a budgetary surplus of \$1.1 billion in October 2004, up from a surplus of \$159 million in October 2003. Revenues were up \$1.3 billion compared to October 2003, primarily due to higher corporate income tax revenues, largely reflecting the impact of delays in the processing of refunds due to labour disputes at the Canada Revenue Agency. This should be reversed in coming months. Program expenses were up \$0.8 billion while public debt charges were \$0.4 billion lower.

### April to October 2004: budgetary surplus of \$9.0 billion

For the first seven months of the 2004–05 fiscal year (April to October), the budgetary surplus is estimated at \$9.0 billion, up \$5.8 billion from the surplus reported in the same period last year. Budgetary revenues were up \$7.4 billion, or 7.3 per cent. This reflects the inclusion of the net proceeds of \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada in September as well as increases in most revenue components, consistent with the growth in the economy in 2004. Program expenses were up \$2.5 billion, or 3.3 per cent, due to higher transfer payments, primarily reflecting the impact of previous budget measures related to transfers to other levels of government. Public debt charges were \$0.9 billion lower.

**Note to Readers:** Caution should be exercised in interpreting the year-to-date fiscal results. The revenue data reported for September and October and the fiscal year to date are affected by the recent labour disruption in the federal public service. Revenues are in some instances overstated due to fewer refunds having been processed. The impacts of this labour disruption should unwind over the coming months as the Canada Revenue Agency catches up with the processing of refunds. In addition, there are a number of proposed policy initiatives, including the recent federal-provincial agreements on health care, equalization and Territorial Formula Financing, which will only be reflected in the monthly fiscal results once enabling legislation receives Royal Assent.

### October 2004: budgetary results

The October 2004 budgetary surplus was estimated at \$1.1 billion, up from a surplus of \$159 million in October 2003.

On a year-over-year basis, budgetary revenues totalled \$15.5 billion, up \$1.3 billion, or 9.1 per cent. This increase is almost entirely attributable to sharply higher net corporate income tax receipts, which rose \$1.2 billion, or 91.8 per cent, above their level of one year ago. Corporate income tax receipts continue to be affected by the recent public

sector labour disruption. There were also increases in personal income tax revenues (\$0.4 billion) and other revenues (\$0.1 billion), offset somewhat by declines in employment insurance (EI) premium revenues (\$0.1 billion) and excise taxes and duties (\$0.3 billion).

- Personal income tax revenues increased \$0.4 billion, or 5.8 per cent, primarily due to growth in source deductions, consistent with higher employment.



# The Fiscal Monitor

- Corporate income tax revenues jumped \$1.2 billion, or 91.8 per cent, partly reflecting the impact of the public service labour disruption. For example, gross receipts in October were up 33.5 per cent while refunds dropped 44.2 per cent, resulting in a 91.8-per-cent gain in net receipts. Some of these higher net receipts will be reversed in the coming months as the backlog of refunds is processed.
- Excise taxes and duties were down \$0.3 billion. This decline is largely due to lower goods and service tax (GST) receipts, which fell \$0.3 billion, or 11.1 per cent, primarily due to the timing of receipts. Among other excise taxes and duties, customs import duties rose 1.7 per cent while sales and excise taxes fell 1.3 per cent.
- EI premiums were down 11.7 per cent, reflecting the impact of the lower premium rate (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003), which more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$0.1 billion.

On a year-over-year basis, program expenses in October 2004 were \$11.6 billion, up \$0.8 billion or 7.3 per cent from October 2003. Higher transfer payments accounted for most of this increase.

Total transfer payments were up \$0.7 billion, or 9.8 per cent, in October 2004.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.2 billion on a year-over-year basis. Elderly benefits increased 3.9 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefits climbed by 10.3 per cent, reflecting the timing of payments in October 2004 compared to the same month last year.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health

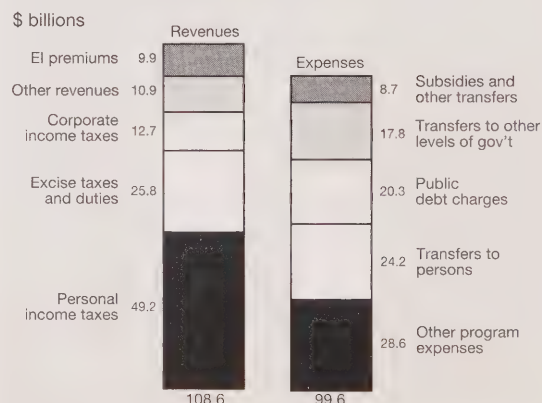
Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up 13.7 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 8.1 per cent from October 2003, primarily reflecting the impact of recoveries in 2003–04 for overpayments in previous years under the equalization program.

- Subsidies and other transfers were up 13.1 per cent. This component is extremely volatile on a monthly basis, largely reflecting the timing of payments. The October estimate of transfers from Human Resources Development is unusually low as it includes corrections to prior months.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 3.1 per cent, as a decline in Crown corporation and defence-related expenses was more than offset by higher expenses in all other departments and agencies. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

## Revenues and expenses

(April-October 2004)



Public debt charges were down 12.6 per cent, as a decline in the stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

## April to October 2004: budgetary results

In the first seven months of the fiscal year, there was a budgetary surplus of \$9.0 billion, up \$5.8 billion from the \$3.2-billion surplus reported in the same period of 2003–04. However, almost half of the increase in the surplus relates to one-time factors.

Budgetary revenues, at \$108.6 billion, were up \$7.4 billion or 7.3 per cent. This increase reflects gains in tax revenues and other revenues, including the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums. Tax revenues were up \$6.5 billion, or 7.8 per cent. However, as noted above, the recent labour disruption in the federal public service has raised year-to-date tax revenues due to a lower volume of refunds processed. This impact should largely unwind in the coming months.

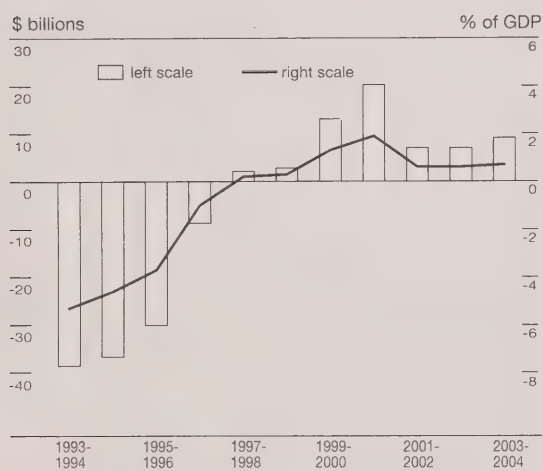
- Personal income tax revenues increased \$2.9 billion, or 6.3 per cent. This increase is primarily due to strong growth in source deductions from employment income, reflecting in part gains in employment.
- Corporate income tax revenues were up \$2.4 billion, or 22.8 per cent, reflecting in part the lower volume of refunds processed in both September and October 2004. In addition, the

monthly results are affected by remittance procedures. Corporations are required to remit monthly instalments based on their previous year's actual tax liabilities or their current year's estimated liabilities, with settlement payments made within 60 days of the close of their taxation year. Given the large increase in settlement payments in 2003–04, reflecting the increase in corporate profits in 2003, the current monthly instalments are more reflective of the increase in tax liabilities last year than an increase in the current year.

- Excise taxes and duties increased \$1.0 billion, or 4.0 per cent, primarily due to growth in GST revenues, which were 5.6 per cent higher than last year. Customs import duties were also up (2.2 per cent), while there were declines in both sales and excise taxes (down 0.2 per cent) and the Air Travellers Security Charge (down 1.2 per cent).
- EI premiums were down \$0.9 billion, or 8.4 per cent.
- Other revenues increased \$1.9 billion, or 25.9 per cent, due to the sale of the Government's remaining shares in Petro-Canada. In the absence of this transaction, other revenues would have declined on a year-over-year basis.

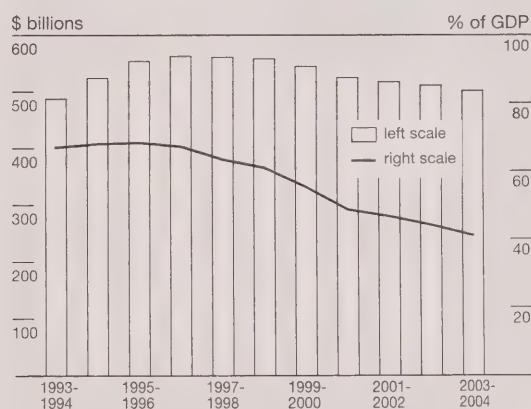
On a year-over-year basis, program expenses in the April to October 2004 period were up 3.3 per cent to \$79.3 billion due to higher transfers. Public debt charges were \$0.9 billion lower than in the first seven months of 2003–04.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



# The Fiscal Monitor

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Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$2.6 billion, or 5.4 per cent.

- Transfers to persons advanced by \$0.5 billion, or 2.2 per cent. Elderly benefits were up 3.3 per cent while EI benefits were virtually unchanged. Within EI benefits, an increase in special benefits, such as sickness, maternity and parental benefits, and employment benefit and support measures, was offset by a decline in regular benefits, reflecting the improvement in the labour market.
- Transfers to other levels of government were up \$1.4 billion, or 8.5 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 8.5 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 First Ministers' agreements on health care, equalization and Territorial Formula Financing. These will be included in the monthly fiscal results once the legislation has received Royal Assent.
- Subsidies and other transfers increased by \$0.7 billion, or 8.4 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses fell by \$0.1 billion, or 0.2 per cent, as lower expenses related to Crown corporations more than offset marginally higher defence expenses. These expenses do not incorporate the impact of recent wage settlements in the federal public sector.

Public debt charges were down \$0.9 billion, as a decline in the stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

## **Financial source of \$1.2 billion for April to October 2004**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or

paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$7.7 billion in the April to October period, down \$5.7 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers in the April to October 2003 period to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway (\$600 million) and the Canada Foundation for Innovation (\$500 million).

With a budgetary surplus of \$9.0 billion and a net requirement of \$7.7 billion from non-budgetary transactions, there was a financial source of \$1.2 billion in the first seven months of 2004–05, compared to a net requirement of \$10.2 billion in the same period last year.

## **Net financing activities down \$9.0 billion**

The Government reduced market debt by \$9.0 billion by the end of October 2004, largely through a reduction of marketable bonds. Given the reduction in market debt and the financial source of \$1.2 billion, the Government lowered its cash balances by \$7.7 billion. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at \$9.5 billion.

Table 1

## Summary statement of transactions

	October		April to October	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,190	15,476	101,131	108,563
Expenses				
Program expenses	-10,788	-11,578	-76,771	-79,280
Public debt charges	-3,243	-2,834	-21,160	-20,309
Budgetary balance (deficit/surplus)	159	1,064	3,200	8,974
<b>Non-budgetary transactions</b>	200	1,145	-13,429	-7,738
<b>Financial source/requirement</b>	359	2,209	-10,229	1,236
<b>Net change in financing activities</b>	-114	1,610	-255	-8,967
<b>Net change in cash balances</b>	245	3,819	-10,484	-7,731
<b>Cash balance at end of period</b>			4,217	9,521

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	October			April to October		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,533	6,910	5.8	46,313	49,229	6.3
Corporate income tax	1,308	2,509	91.8	10,366	12,729	22.8
Other income tax revenue	220	269	22.3	1,570	1,769	12.7
Total income tax	8,061	9,688	20.2	58,249	63,727	9.4
Excise taxes and duties						
Goods and services tax	3,066	2,726	-11.1	17,055	18,015	5.6
Customs import duties	233	237	1.7	1,778	1,818	2.2
Sales and excise taxes	815	804	-1.3	5,685	5,675	-0.2
Air Travellers Security Charge	33	48	45.5	245	242	-1.2
Total excise taxes and duties	4,147	3,815	-8.0	24,763	25,750	4.0
Total tax revenues	12,208	13,503	10.6	83,012	89,477	7.8
<b>Employment insurance premiums</b>	1,167	1,031	-11.7	10,857	9,940	-8.4
<b>Other revenues</b>	815	942	15.6	7,262	9,146	25.9
<b>Total budgetary revenues</b>	14,190	15,476	9.1	101,131	108,563	7.3

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Table 3

## Budgetary expenses

	October		Change	April to October		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,271	2,359	3.9	15,595	16,111	3.3
Employment insurance benefits	1,012	1,116	10.3	8,047	8,051	0.0
Total	3,283	3,475	5.8	23,642	24,162	2.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			7,379	
Canada Social Transfer		652			4,565	
Health Reform Transfer		125			875	
Canada Health and Social Transfer	1,692	-25		11,842		
Fiscal transfers	857	926	8.1	6,059	6,571	8.5
Alternative Payments for Standing Programs	-269	-139	-48.3	-1,475	-1,573	6.6
Total	2,280	2,593	13.7	16,426	17,817	8.5
Subsidies and other transfers						
Agriculture	41	89	117.1	410	321	-21.7
Foreign Affairs	137	203	48.2	967	1,225	26.7
Health	270	105	-61.1	978	979	0.1
Human Resources Development	133	7	-94.7	766	506	-33.9
Indian and Northern Development	387	348	-10.1	2,544	2,539	-0.2
Industry and Regional Development	162	208	28.4	875	1,035	18.3
Other	115	448	289.6	1,470	2,074	41.1
Total	1,245	1,408	13.1	8,010	8,679	8.4
Total transfer payments	6,808	7,476	9.8	48,078	50,658	5.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	96	65	-32.3	679	725	6.8
Canada Mortgage and Housing Corporation	149	165	10.7	1,223	1,200	-1.9
Other	188	136	-27.7	1,262	1,121	-11.2
Total	433	366	-15.5	3,164	3,046	-3.7
Defence	1,059	1,025	-3.2	6,629	6,680	0.8
All other departments and agencies	2,488	2,711	9.0	18,900	18,896	0.0
Total other program expenses	3,980	4,102	3.1	28,693	28,622	-0.2
<b>Total program expenses</b>	10,788	11,578	7.3	76,771	79,280	3.3
<b>Public debt charges</b>	3,243	2,834	-12.6	21,160	20,309	-4.0
<b>Total budgetary expenses</b>	14,031	14,412	2.7	97,931	99,589	1.7



Table 4

## Budgetary balance and financial source/requirement

	October		April to October	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	159	1,064	3,200	8,974
<b>Non-budgetary transactions</b>				
Capital investing activities	52	-185	-1,099	-654
Other investing activities	68	-508	-1,293	-1,590
Pension and other accounts	37	-1,358	862	-2,000
Other activities				
Accounts payable, receivables, accruals and allowances	-811	2,462	-14,347	-5,266
Foreign exchange activities	548	487	716	178
Amortization of tangible capital assets	306	247	1,732	1,594
Total other activities	43	3,196	-11,899	-3,494
<b>Total non-budgetary transactions</b>	200	1,145	-13,429	-7,738
<b>Net financial source/requirement</b>	359	2,209	-10,229	1,236

Table 5

## Financial source/requirement and net financing activities

	October		April to October	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	359	2,209	-10,229	1,236
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	578	552	-6,524	-8,926
Treasury bills	-400	1,400	7,100	1,800
Canada Savings Bonds	-86	-79	-738	-347
Other	-1	-1	172	-26
Total	91	1,872	10	-7,499
Foreign currency borrowings	-207	-260	-255	-1,428
Total	-116	1,612	-245	-8,927
Obligations related to capital leases	2	-2	-10	-40
<b>Net change in financing activities</b>	-114	1,610	-255	-8,967
<b>Change in cash balance</b>	245	3,819	-10,484	-7,731

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	October 31, 2004	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	71,443	-8,521
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	269,854	-8,926
Treasury bills	113,378	115,178	1,800
Canada Savings Bonds	21,330	20,983	-347
Other	3,427	3,401	-26
Subtotal	416,915	409,416	-7,499
Payable in foreign currencies	20,542	19,114	-1,428
Obligations related to capital leases	2,774	2,734	-40
Total unmaturred debt	440,231	431,264	-8,967
Pension and other accounts			
Public sector pensions	127,560	128,785	1,225
Other employee and veteran future benefits	39,367	39,543	176
Canada Pension Plan (net of securities)	7,483	4,460	-3,023
Other pension and other accounts	6,488	6,110	-378
Total pension and other accounts	180,898	178,898	-2,000
Total interest-bearing debt	621,129	610,162	-10,967
<b>Total liabilities</b>	701,093	681,605	-19,488
<b>Financial assets</b>			
Cash and accounts receivable	70,921	59,936	-10,985
Foreign exchange accounts	44,313	44,135	-178
Loans, investments and advances (net of allowances)	29,548	31,138	1,590
Total financial assets	144,782	135,209	-9,573
<b>Net debt</b>	556,311	546,396	-9,915
<b>Non-financial assets</b>	54,818	53,877	-941
<b>Federal debt (accumulated deficit)</b>	501,493	492,519	-8,974

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December 2004

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2004: budgetary surplus of \$1.7 billion

There was a budgetary surplus of \$1.7 billion in November 2004, up from a surplus of \$0.9 billion in November 2003. Revenues were up \$1.8 billion compared to November 2003, primarily due to higher goods and services tax (GST) and corporate income tax revenues. Program expenses were up \$0.9 billion while public debt charges were \$0.1 billion higher.

### April to November 2004: budgetary surplus of \$10.7 billion

For the first eight months of the 2004–05 fiscal year (April to November), the budgetary surplus is estimated at \$10.7 billion, up \$6.6 billion from the surplus reported in the same period last year. This improvement reflects the inclusion of the net proceeds of \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada in September as well as increases in most revenue components, consistent with the growth in the economy in 2004. In addition, the monthly results to date do not reflect the cost of a number of proposed policy initiatives totalling \$3.9 billion, including the recent federal-provincial agreements on health care and equalization, which will only be reflected in the monthly fiscal results once enabling legislation receives Royal Assent. As well, the monthly estimates do not include the costs associated with the proposed wage settlements with federal government employees. These costs will be incorporated once the agreements have been signed.

### November 2004: budgetary results

The November 2004 budgetary surplus was estimated at \$1.7 billion, up from a surplus of \$0.9 billion in November 2003.

Budgetary revenues totalled \$16.3 billion in the month, up \$1.8 billion or 12.5 per cent from November 2003. This increase is almost entirely attributable to sharply higher net GST receipts as well as strong growth in corporate income tax receipts.

- Personal income tax revenues increased \$0.1 billion, or 1.7 per cent, primarily due to growth in source deductions, consistent with higher employment.
- Corporate income tax revenues were up \$0.5 billion, or 27.6 per cent. The November 2004 monthly results reflect

remittance procedures, under which corporations are required to remit monthly instalments based on their previous year's actual tax liabilities or their current year's estimated liabilities, with settlement payments made within 60 days of the close of their taxation year. Given the large increase in settlement payments in 2003–04, reflecting the increase in corporate profits in 2003, the current monthly instalments reflect the increase in corporate tax liabilities since 2002. The monthly increase in November is down from the extremely high monthly rates of growth reported in September and October, when the processing of refunds was affected by the labour disruption at the Canada Revenue Agency.





# The Fiscal Monitor

- Excise taxes and duties were up \$1.2 billion. This increase is almost entirely the result of higher GST receipts, which were up \$1.2 billion, or 56.3 per cent, due to higher gross receipts. This partly reflects the timing of receipts compared to last year. Among other excise taxes and duties, customs import duties rose \$47 million, while sales and excise taxes and receipts from the Air Travellers Security Charge were down.
- Employment insurance (EI) premiums were down 10.9 per cent, reflecting the impact of a lower premium rate (the employee rate for 2004 was \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003), which more than offset the increase in employment and thus the number of people paying premiums. The decline in EI premiums in November, as well as the year-to-date decline, also partly reflects timing factors with respect to prior-year adjustments that were made in December 2003. As a result, the monthly and year-to-date declines will unwind somewhat over the remainder of the fiscal year.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$0.1 billion, or 13.2 per cent. This component is extremely volatile on a monthly basis.

Program expenses in November 2004 totalled \$11.6 billion, up \$0.9 billion or 8.3 per cent from November 2003. The increase was spread evenly between transfer payments and other program expenses.

Total transfer payments were up \$0.4 billion or 6.1 per cent in November 2004.

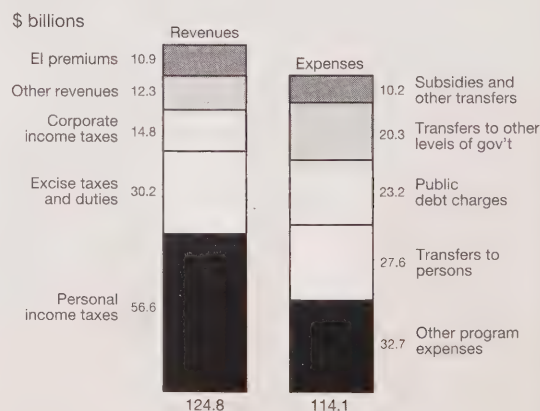
- Major transfers to persons, consisting of elderly and EI benefits, were down \$0.1 billion on a year-over-year basis. Elderly benefits increased 4.1 per cent due to both higher average benefits, which have risen in line with inflation, and an increase in the number of individuals eligible for benefits. EI benefits were down 13.3 per cent, reflecting a difference in the timing of payments between October and November in 2004 compared to the same months last year.

- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up 7.6 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 1.3 per cent from November 2003.
- Subsidies and other transfers were up 28.0 per cent. This component is extremely volatile on a monthly basis, largely reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 12.6 per cent, as a decline in Crown corporation expenses was more than offset by higher expenses related to defence and other departments and agencies. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were 4.1 per cent higher, driven largely by higher interest payments on non-market debt.

## Revenues and expenses (April-November 2004)



## April to November 2004: budgetary results

In the first eight months of the fiscal year, there was a budgetary surplus of \$10.7 billion, up \$6.6 billion from the \$4.1-billion surplus reported in the same period of 2003–04.

Budgetary revenues, at \$124.8 billion, were up \$9.2 billion or 8.0 per cent. This increase reflects gains in tax revenues and other revenues, including the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums.

- Personal income tax revenues increased \$3.0 billion or 5.7 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting gains in employment and income.
- Corporate income tax revenues were up \$2.8 billion or 23.5 per cent, largely reflecting the impact of remittance procedures, as noted above. Over the remainder of the fiscal year, the growth in corporate income tax revenues should come down.
- Excise taxes and duties increased \$2.2 billion or 7.8 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were 11.3 per cent higher, in part reflecting the timing of refunds. Over the balance of the year

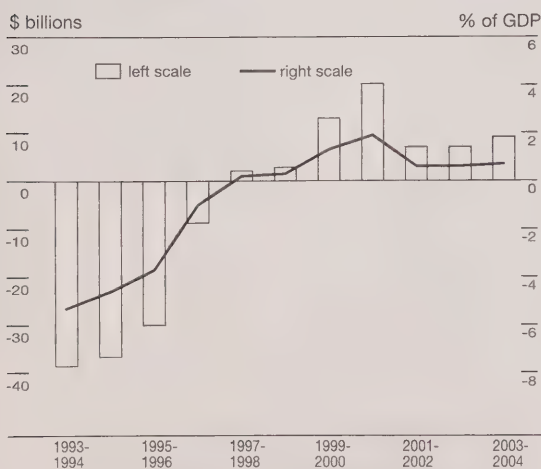
the growth in refunds should pick up, reflecting more closely the increase in gross revenues, which were up 6.7 per cent. Customs import duties were also up (4.4 per cent), while there were declines in both sales and excise taxes (down 0.8 per cent) and the Air Travellers Security Charge (down 2.2 per cent).

- EI premiums were down \$1.0 billion or 8.7 per cent. As noted above, the year-to-date decline is in part a function of timing factors with respect to prior-year adjustments. The decline should moderate in the remaining months of the fiscal year.
- Other revenues increased \$2.0 billion or 24.3 per cent. This increase reflects the sale of the Government's remaining shares of Petro-Canada. In the absence of this transaction, other revenues would have declined on a year-over-year basis.

On a year-over-year basis, program expenses in the April to November 2004 period were up 3.9 per cent to \$90.9 billion, largely due to higher transfers. Public debt charges were \$0.7 billion lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

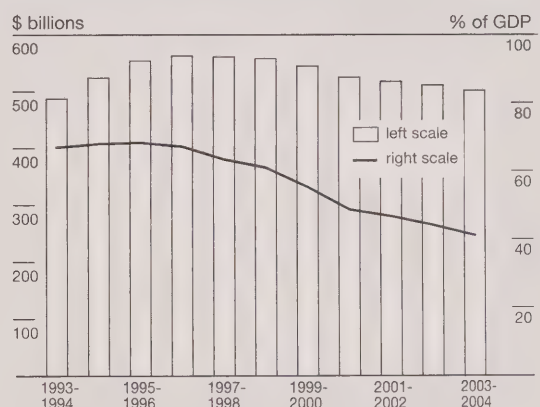
Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$3.0 billion, or 5.4 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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- Transfers to persons advanced by \$0.4 billion, or 1.6 per cent. Elderly benefits were up 3.4 per cent while EI benefits were down 1.8 per cent. Within EI benefits, an increase in special benefits, such as sickness, maternity and parental benefits, and employment benefit and support measures, was more than offset by a decline in regular benefits, reflecting the improvement in the labour market.
- Transfers to other levels of government were up \$1.6 billion, or 8.4 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 7.6 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 First Ministers' agreements on health care, equalization and Territorial Formula Financing. These will be included in the monthly fiscal results once the legislation has received Royal Assent.
- Subsidies and other transfers increased by \$1.0 billion, or 10.8 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$0.4 billion, or 1.2 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. These expenses do not incorporate the impact of proposed wage settlements in the federal public sector.

## Financial source of \$7.1 billion for April to November 2004

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing

activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.6 billion in the April to November period, an improvement of \$8.8 billion from the requirement in the same period of 2003–04. The improvement is primarily attributable to the unusually large cash requirements in the April to November 2003 period related to transfers to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway (\$600 million) and the Canada Foundation for Innovation (\$500 million). Dampening the improvement somewhat was an increase in financial requirements for pension and other accounts in the April to November period, reflecting payments to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$10.7 billion and a net requirement of \$3.6 billion from non-budgetary transactions, there was a financial source of \$7.1 billion in the first eight months of 2004–05, compared to a financial requirement of \$8.3 billion in the same period last year.

## Net financing activities down \$8.1 billion

The Government used this financial source of \$7.1 billion and a reduction in its cash balances of \$1 billion to reduce its market debt by \$8.1 billion by the end of November 2004, largely through a reduction of marketable bonds and lower foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of November stood at \$16.3 billion.



Table 1

## Summary statement of transactions

	November		April to November	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,445	16,252	115,575	124,815
Expenses				
Program expenses	-10,717	-11,606	-87,488	-90,884
Public debt charges	-2,795	-2,909	-23,953	-23,219
Budgetary balance (deficit/surplus)	933	1,737	4,134	10,712
<b>Non-budgetary transactions</b>	989	4,099	-12,432	-3,640
<b>Financial source/requirement</b>	1,922	5,836	-8,298	7,072
<b>Net change in financing activities</b>	6,114	897	5,860	-8,068
<b>Net change in cash balances</b>	8,036	6,733	-2,438	-996
<b>Cash balance at end of period</b>			12,259	16,254

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	November			April to November		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,238	7,359	1.7	53,552	56,589	5.7
Corporate income tax	1,636	2,087	27.6	12,002	14,817	23.5
Other income tax revenue	228	238	4.4	1,798	2,008	11.7
Total income tax	9,102	9,684	6.4	67,352	73,414	9.0
Excise taxes and duties						
Goods and services tax	2,131	3,331	56.3	19,185	21,346	11.3
Customs import duties	222	269	21.2	2,000	2,087	4.4
Sales and excise taxes	885	845	-4.5	6,571	6,520	-0.8
Air Travellers Security Charge	32	28	-12.5	276	270	-2.2
Total excise taxes and duties	3,270	4,473	36.8	28,032	30,223	7.8
Total tax revenues	12,372	14,157	14.4	95,384	103,637	8.7
<b>Employment insurance premiums</b>	1,046	932	-10.9	11,903	10,872	-8.7
<b>Other revenues</b>	1,027	1,163	13.2	8,288	10,306	24.3
<b>Total budgetary revenues</b>	14,445	16,252	12.5	115,575	124,815	8.0

# The Fiscal Monitor

Table 3

## Budgetary expenses

	November			April to November		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,260	2,353	4.1	17,856	18,465	3.4
Employment insurance benefits	1,287	1,116	-13.3	9,334	9,167	-1.8
Total	3,547	3,469	-2.2	27,190	27,632	1.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			8,433	
Canada Social Transfer		702			5,267	
Health Reform Transfer		125			1,000	
Canada Health and Social Transfer	1,691	-27		13,533	-27	
Fiscal transfers	865	876	1.3	6,923	7,446	7.6
Alternative Payments for Standing Programs	-214	-210	-1.9	-1,689	-1,783	5.6
Total	2,342	2,520	7.6	18,767	20,336	8.4
Subsidies and other transfers						
Agriculture	115	251	118.3	524	572	9.2
Foreign Affairs	112	158	41.1	1,080	1,383	28.1
Health	171	194	13.5	1,150	1,172	1.9
Human Resources Development	129	216	67.4	895	722	-19.3
Indian and Northern Development	302	352	16.6	2,846	2,891	1.6
Industry and Regional Development	97	143	47.4	972	1,177	21.1
Other	252	194	-23.0	1,724	2,268	31.6
Total	1,178	1,508	28.0	9,191	10,185	10.8
Total transfer payments	7,067	7,497	6.1	55,148	58,153	5.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	130	54	-58.5	809	779	-3.7
Canada Mortgage and Housing Corporation	146	140	-4.1	1,370	1,340	-2.2
Other	241	117	-51.5	1,503	1,238	-17.6
Total	517	311	-39.8	3,682	3,357	-8.8
Defence	851	1,030	21.0	7,480	7,711	3.1
All other departments and agencies	2,282	2,768	21.3	21,178	21,663	2.3
Total other program expenses	3,650	4,109	12.6	32,340	32,731	1.2
<b>Total program expenses</b>	10,717	11,606	8.3	87,488	90,884	3.9
<b>Public debt charges</b>	2,795	2,909	4.1	23,953	23,219	-3.1
<b>Total budgetary expenses</b>	13,512	14,515	7.4	111,441	114,103	2.4

Table 4

## Budgetary balance and financial source/requirement

	November		April to November	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	933	1,737	4,134	10,712
<b>Non-budgetary transactions</b>				
Capital investing activities	-154	-180	-1,253	-836
Other investing activities	78	-235	-1,215	-1,825
Pension and other accounts	-766	-483	98	-2,486
Other activities				
Accounts payable, receivables, accruals and allowances	1,425	907	-12,916	-4,356
Foreign exchange activities	186	3,866	902	4,045
Amortization of tangible capital assets	220	224	1,952	1,818
Total other activities	1,831	4,997	-10,062	1,507
<b>Total non-budgetary transactions</b>	989	4,099	-12,432	-3,640
<b>Net financial source/requirement</b>	1,922	5,836	-8,298	7,072

Table 5

## Financial source/requirement and net financing activities

	November		April to November	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Net financial source/requirement</b>	1,922	5,836	-8,298	7,072
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-494	1,005	-7,017	-7,921
Treasury bills	7,750	5,050	14,850	6,850
Canada Savings Bonds	-841	-1,357	-1,578	-1,704
Other	-1	-1	171	-27
Total	6,414	4,697	6,426	-2,802
Foreign currency borrowings	-317	-3,831	-573	-5,257
Total	6,097	866	5,853	-8,059
Obligations related to capital leases	17	31	7	-9
<b>Net change in financing activities</b>	6,114	897	5,860	-8,068
<b>Change in cash balance</b>	8,036	6,733	-2,438	-996



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	November 30, 2004	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	73,578	-6,386
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	270,859	-7,921
Treasury bills	113,378	120,228	6,850
Canada Savings Bonds	21,330	19,626	-1,704
Other	3,427	3,400	-27
Subtotal	416,915	414,113	-2,802
Payable in foreign currencies	20,542	15,285	-5,257
Obligations related to capital leases	2,774	2,765	-9
Total unmaturred debt	440,231	432,163	-8,068
Pension and other accounts			
Public sector pensions	127,560	128,967	1,407
Other employee and veteran future benefits	39,367	39,568	201
Canada Pension Plan (net of securities)	7,483	3,783	-3,700
Other pension and other accounts	6,488	6,096	-392
Total pension and other accounts	180,898	178,412	-2,486
Total interest-bearing debt	621,129	610,575	-10,554
<b>Total liabilities</b>	701,093	684,153	-16,940
<b>Financial assets</b>			
Cash and accounts receivable	70,921	67,897	-3,024
Foreign exchange accounts	44,312	40,268	-4,045
Loans, investments and advances (net of allowances)	29,548	31,373	1,825
Total financial assets	144,781	139,537	-5,244
<b>Net debt</b>	556,311	544,616	-11,695
<b>Non-financial assets</b>	54,817	53,834	-983
<b>Federal debt (accumulated deficit)</b>	501,494	490,782	-10,712

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January 2005

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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2004: budgetary surplus of \$280 million

There was a budgetary surplus of \$280 million in December 2004, down from the surplus of \$3.2 billion recorded in December 2003. Revenues were down \$2.0 billion compared to December 2003 due to significantly lower corporate income tax revenues. The sharp drop in corporate income tax revenues, and the accompanying decline in the December 2004 surplus, largely reflect the return of corporate receipts to more normal levels in December 2004 from the unusually high level recorded in December 2003.

High corporate receipts last year were related to the large year-end settlement payments made by several financial institutions as a result of their foreign exchange gains in 2003. Program expenses were up by \$1.2 billion in December, while public debt charges were \$0.2 billion lower.

### April to December 2004: budgetary surplus of \$11.0 billion

For the first nine months of the 2004-05 fiscal year (April to December), the budgetary surplus is estimated at \$11.0 billion, up \$3.7 billion from the surplus reported in the same period of 2003-04. This improvement reflects the inclusion of the net proceeds of \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada in September as well as increases in most revenue components, consistent with the growth in the economy in 2004. Monthly results to date do not reflect the cost of a number of proposed policy initiatives totalling \$3.9 billion, including the recent federal-provincial agreements on health care and equalization, which will only be reflected in the monthly fiscal results once enabling legislation receives Royal Assent. As well, the monthly estimates do not include the costs associated with the recently agreed-to wage settlements with federal government employees. These costs will be reflected in the monthly results once the associated agreements come into effect.

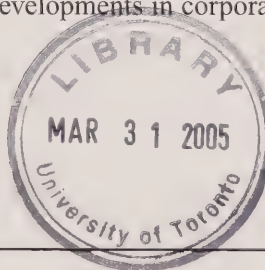
### December 2004: budgetary results

The December 2004 budgetary surplus was estimated at \$280 million, down from a surplus of \$3.2 billion in December 2003.

Budgetary revenues totalled \$15.6 billion in the month, down \$2.0 billion or 11.2 per cent from December 2003. This decline is almost entirely attributable to sharply lower corporate income tax receipts.

- Personal income tax revenues increased \$0.4 billion, or 6.1 per cent, primarily due to growth in source deductions, consistent with higher employment.

- Corporate income tax revenues were down \$2.5 billion, or 48.4 per cent. The sharp decline reflects the unusually high collections in December 2003. Significant year-end settlement payments were received from several financial institutions in December 2003 relating to their one-time foreign exchange gains in the 2003 tax year. For the remaining months of the fiscal year, the year-over-year growth in corporate receipts should be more reflective of developments in corporate profits.



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- Excise taxes and duties were down \$0.1 billion. This decline is almost entirely the result of lower goods and services tax (GST) receipts, which were down \$0.1 billion, or 2.2 per cent, primarily reflecting higher refunds. Customs import duties rose \$10 million, while sales and excise taxes and receipts from the Air Travellers Security Charge were down a combined \$26 million.
- Employment insurance (EI) premiums were up 29.4 per cent, reflecting prior-year adjustments in December 2003.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.1 billion or 12.5 per cent. This revenue component is volatile on a monthly basis.

Program expenses in December 2004 totalled \$12.7 billion, up \$1.2 billion or 10.3 per cent from December 2003. The increase is mostly due to higher other program expenses.

Total transfer payments were up \$0.1 billion or 1.9 per cent in December 2004.

- Major transfers to persons, consisting of elderly and EI benefits, were 0.9 per cent higher on a year-over-year basis. Elderly benefits increased 4.4 per cent due to both higher average benefits, which have risen in line with inflation, and an increase in the number of individuals eligible for benefits. EI benefits were down 5.4 per cent, reflecting the lower number of unemployed as well as a difference in the timing of payments between November and December 2004 compared to the same months in 2003.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up 10.5 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up

14.6 per cent from December 2003, primarily reflecting the impact of recoveries in 2003–04 of overpayments in previous years.

- Subsidies and other transfers were down 7.8 per cent. This component is volatile on a monthly basis, largely reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 26.8 per cent due to both higher Crown corporation expenses and higher expenses related to defence and other departments and agencies. Defence expenses rose \$0.7 billion or 70.8 per cent, due to one-time accrual adjustments related to the measurement and expensing of inventory stocks and capital assets. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

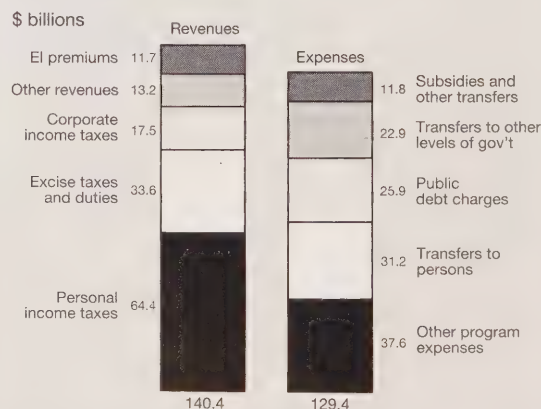
Public debt charges were 8.2 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

## April to December 2004: budgetary results

In the first nine months of the fiscal year, there was a budgetary surplus of \$11.0 billion, up \$3.7 billion from the \$7.3-billion surplus reported in the same period of 2003–04.

Budgetary revenues, at \$140.4 billion, were up \$7.3 billion or 5.5 per cent. This increase reflects gains in tax revenues and other revenues, including

### Revenues and expenses (April–December 2004)





\$2.6 billion from the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums.

- Personal income tax revenues increased \$3.5 billion or 5.7 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting gains in employment and income.
- Corporate income tax revenues were up \$0.3 billion or 1.8 per cent. This is a sharp turnaround from the November 2004 year-to-date results, when revenues were up \$2.8 billion or 23.5 per cent, and reflects the impacts of large December 2003 settlement payments, as discussed above. Absent these large settlement payments, underlying corporate receipts are up about 19 per cent year-to-date, in line with the growth in corporate profits.
- Excise taxes and duties increased \$2.1 billion or 6.8 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were up 9.8 per cent, in part reflecting weak year-to-date refunds. Over the balance of the year, the growth in GST refunds should pick up to more closely reflect the increase in gross revenues, which were up 6.1 per cent. Customs import duties were also up (4.4 per cent), while there were declines in both sales and excise taxes (down 0.9 per cent) and the Air Travellers Security Charge (down 4.5 per cent).

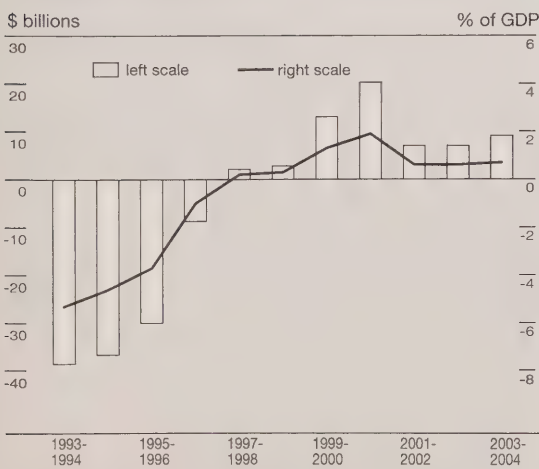
- EI premiums were down \$0.8 billion or 6.7 per cent. The year-to-date decline is in part a function of positive accrual adjustments that were made in the April to December period of 2003, and which were reversed in January 2004. As a result, the decline should moderate over the balance of the fiscal year.
- Other revenues increased \$1.9 billion or 21.5 per cent, reflecting the sale of the Government's remaining shares in Petro-Canada. In the absence of this transaction, other revenues would have declined on a year-over-year basis.

On a year-over-year basis, program expenses in the April to December 2004 period were up 4.6 per cent to \$103.6 billion, largely due to higher transfers. Public debt charges were \$1.0 billion lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.2 billion, or 5.0 per cent.

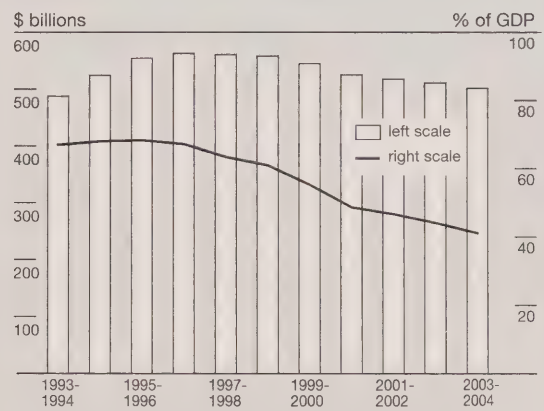
- Transfers to persons advanced by \$0.5 billion, or 1.5 per cent. Elderly benefits were up 3.5 per cent while EI benefits were down 2.2 per cent. Within EI benefits, an increase in special benefits, such as sickness, maternity and parental benefits, and employment benefit and support measures, was more than offset by a decline in regular benefits, reflecting the improvement in the labour market.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- Transfers to other levels of government were up \$1.8 billion, or 8.6 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 8.4 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 First Ministers' agreements on health care, equalization and Territorial Formula Financing. These will be included in the monthly fiscal results once the legislation has received Royal Assent.
- Subsidies and other transfers increased by \$0.9 billion, or 7.9 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$1.4 billion, or 3.9 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$0.9 billion or 10.6 per cent, reflecting a one-time accrual adjustment in December 2004 due to changes in the measurement and expensing of inventory stocks and capital assets. Other program expenses do not incorporate the impact of recent wage settlements in the federal public sector.

## **Financial source of \$6.4 billion for April to December 2004**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets

and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.6 billion in the April to December period, an improvement of \$8.2 billion from the requirement in the same period of 2003–04. The improvement is primarily attributable to the unusually large cash requirements in the April to December 2003 period related to transfers to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway (\$600 million) and the Canada Foundation for Innovation (\$500 million). Dampening the improvement somewhat was an increase in financial requirements for pension and other accounts in the April to December period, reflecting payments to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$11.0 billion and a net requirement of \$4.6 billion from non-budgetary transactions, there was a financial source of \$6.4 billion in the first nine months of 2004–05, compared to a requirement of \$5.5 billion in the same period of 2003–04.

## **Net financing activities down \$19.6 billion**

The Government used this financial source of \$6.4 billion and a reduction in its cash balances of \$13.2 billion to reduce its market debt by \$19.6 billion by the end of December 2004, largely through a reduction of Treasury bills and foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of December stood at \$4.0 billion.

Table 1

## Summary statement of transactions

	December		April to December	
	2003	2004	2003-04	2004-05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	17,551	15,584	133,127	140,400
Expenses				
Program expenses	-11,481	-12,665	-98,968	-103,551
Public debt charges	-2,874	-2,639	-26,828	-25,858
Budgetary balance (deficit/surplus)	3,196	280	7,331	10,991
<b>Non-budgetary transactions</b>	-361	-948	-12,794	-4,583
<b>Financial source/requirement</b>	2,835	-668	-5,463	6,408
<b>Net change in financing activities</b>	-7,814	-11,562	-1,954	-19,630
<b>Net change in cash balances</b>	-4,979	-12,230	-7,417	-13,222
<b>Cash balance at end of period</b>			7,281	4,024

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	December			April to December		
	2003	2004	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,387	7,835	6.1	60,938	64,424	5.7
Corporate income tax	5,191	2,680	-48.4	17,193	17,497	1.8
Other income tax revenue	227	284	25.1	2,024	2,292	13.2
Total income tax	12,805	10,799	-15.7	80,155	84,213	5.1
Excise taxes and duties						
Goods and services tax	2,258	2,208	-2.2	21,443	23,554	9.8
Customs import duties	222	232	4.5	2,222	2,319	4.4
Sales and excise taxes	893	875	-2.0	7,464	7,394	-0.9
Air Travellers Security Charge	36	28	-22.2	312	298	-4.5
Total excise taxes and duties	3,409	3,343	-1.9	31,441	33,565	6.8
Total tax revenues	16,214	14,142	-12.8	111,596	117,778	5.5
<b>Employment insurance premiums</b>	649	840	29.4	12,552	11,713	-6.7
<b>Other revenues</b>	688	602	-12.5	8,979	10,909	21.5
<b>Total budgetary revenues</b>	17,551	15,584	-11.2	133,127	140,400	5.5



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Table 3

## Budgetary expenses

	December		Change	April to December		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,268	2,367	4.4	20,123	20,832	3.5
Employment insurance benefits	1,268	1,200	-5.4	10,602	10,367	-2.2
Total	3,536	3,567	0.9	30,725	31,199	1.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			9,488	
Canada Social Transfer		658			5,925	
Health Reform Transfer		125			1,125	
Canada Health and Social Transfer	1,692	-29		15,225	-56	
Fiscal transfers	879	1,007	14.6	7,801	8,454	8.4
Alternative Payments for Standing Programs	-214	-210	-1.9	-1,902	-1,993	4.8
Total	2,357	2,605	10.5	21,124	22,943	8.6
Subsidies and other transfers						
Agriculture	432	108	-75.0	956	680	-28.9
Foreign Affairs	224	316	41.1	1,304	1,699	30.3
Health	83	87	4.8	1,232	1,259	2.2
Human Resources Development	92	64	-30.4	987	786	-20.4
Indian and Northern Development	340	380	11.8	3,187	3,271	2.6
Industry and Regional Development	129	213	65.1	1,101	1,390	26.2
Other	412	410	-0.5	2,132	2,678	25.6
Total	1,712	1,578	-7.8	10,899	11,763	7.9
Total transfer payments	7,605	7,750	1.9	62,748	65,905	5.0
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	72	93	29.2	881	872	-1.0
Canada Mortgage and Housing Corporation	171	175	2.3	1,541	1,515	-1.7
Other	229	283	23.6	1,733	1,522	-12.2
Total	472	551	16.7	4,155	3,909	-5.9
Defence	931	1,590	70.8	8,410	9,299	10.6
All other departments and agencies	2,473	2,774	12.2	23,655	24,438	3.3
Total other program expenses	3,876	4,915	26.8	36,220	37,646	3.9
<b>Total program expenses</b>	11,481	12,665	10.3	98,968	103,551	4.6
<b>Public debt charges</b>	2,874	2,639	-8.2	26,828	25,858	-3.6
<b>Total budgetary expenses</b>	14,355	15,304	6.6	125,796	129,409	2.9

Table 4

## Budgetary balance and financial source/requirement

	December		April to December	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	3,196	280	7,331	10,991
<b>Non-budgetary transactions</b>				
Capital investing activities	-171	-169	-1,424	-1,003
Other investing activities	-232	-46	-1,447	-1,871
Pension and other accounts	326	640	423	-1,845
Other activities				
Accounts payable, receivables, accruals and allowances	-1,562	-1,797	-14,479	-6,151
Foreign exchange activities	1,063	-86	1,965	3,959
Amortization of tangible capital assets	215	510	2,168	2,328
Total other activities	-284	-1,373	-10,346	136
<b>Total non-budgetary transactions</b>	-361	-948	-12,794	-4,583
<b>Net financial source/requirement</b>	2,835	-668	-5,463	6,408

Table 5

## Financial source/requirement and net financing activities

	December		April to December	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	2,835	-668	-5,463	6,408
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-5,136	-7,989	-12,154	-15,911
Treasury bills	-2,650	-3,200	12,200	3,650
Canada Savings Bonds	12	-165	-1,566	-1,868
Other	-80	0	91	-27
Total	-7,854	-11,354	-1,429	-14,155
Foreign currency borrowings	66	-285	-507	-5,543
Total	-7,788	-11,639	-1,936	-19,699
Obligations related to capital leases	-26	77	-18	68
<b>Net change in financing activities</b>	-7,814	-11,562	-1,954	-19,630
<b>Change in cash balance</b>	-4,979	-12,230	-7,417	-13,222

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	December 31, 2004	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	70,134	-9,830
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	262,870	-15,911
Treasury bills	113,378	117,028	3,650
Canada Savings Bonds	21,330	19,462	-1,868
Other	3,427	3,400	-27
Subtotal	416,915	402,760	-14,155
Payable in foreign currencies	20,542	14,999	-5,543
Obligations related to capital leases	2,774	2,842	68
Total unmaturred debt	440,231	420,601	-19,630
Pension and other accounts			
Public sector pensions	127,560	129,419	1,859
Other employee and veteran future benefits	39,367	39,593	226
Canada Pension Plan (net of securities)	7,483	4,006	-3,477
Other pension and other accounts	6,488	6,035	-453
Total pension and other accounts	180,898	179,053	-1,845
Total interest-bearing debt	621,129	599,654	-21,475
<b>Total liabilities</b>	701,093	669,788	-31,305
<b>Financial assets</b>			
Cash and accounts receivable	70,921	54,020	-16,902
Foreign exchange accounts	44,312	40,353	-3,959
Loans, investments and advances (net of allowances)	29,548	31,419	1,871
<b>Total financial assets</b>	144,781	125,792	-18,990
<b>Net debt</b>	556,311	543,996	-12,316
<b>Non-financial assets</b>	54,817	53,492	-1,325
<b>Federal debt (accumulated deficit)</b>	501,494	490,503	-10,991

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*Ce document est également offert en français.*

February 2005



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2005: budgetary surplus of \$2.4 billion

There was a budgetary surplus of \$2.4 billion in January 2005, up from the surplus of \$0.8 billion recorded in January 2004. This year-over-year increase is due principally to timing factors related to the inclusion of one extra processing cycle for personal income tax receipts, which last year occurred in February. Consequently, personal income tax receipts—and therefore the monthly budgetary surplus—will fall off considerably in February 2005. As well, the surplus was bolstered by very strong net goods and services tax (GST) receipts, which grew 29.3 per cent, well in excess of the growth in taxable consumption. The growth in net receipts is due to ongoing weakness in GST refunds. Over the course of the full fiscal year, growth in GST refunds should pick up to more closely reflect the increase in gross revenues, and therefore net receipts will be more reflective of the growth in taxable consumption. Program expenses were up by \$1.8 billion in January 2005, while public debt charges were \$0.1 billion lower.

### April 2004 to January 2005: budgetary surplus of \$13.4 billion

For the first 10 months of the 2004–05 fiscal year (April to January), the budgetary surplus is estimated at \$13.4 billion, up \$5.3 billion from the surplus reported in the same period of 2003–04. This improvement reflects the above-mentioned timing factors, which will unwind in February, the inclusion of the net proceeds of \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada in September 2004, as well as increases in most revenue components, consistent with the growth in the economy. *Monthly results to date do not reflect the significant measures announced in the 2005 budget or the cost of the federal-provincial agreements on health care and equalization/Territorial Formula Financing (TFF). Together, these measures total nearly \$11 billion.* Their cost will be reflected in the monthly fiscal results once the enabling legislation receives Royal Assent.

### January 2005: budgetary results

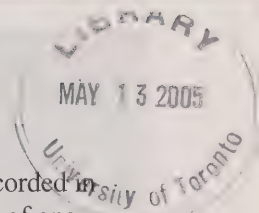
The January 2005 budgetary surplus was estimated at \$2.4 billion, up from the surplus of \$0.8 billion in January 2004.

Budgetary revenues totalled \$18.8 billion in the month, up \$3.3 billion or 21.4 per cent from January 2004. This rise is due to significantly higher personal income tax receipts as well as increases in GST and corporate tax receipts.

- Personal income tax revenues increased \$1.5 billion or 20.5 per cent. However, this extraordinary gain reflects timing factors—there were more processing cycles for monthly withholdings in January 2005 compared to the same month last year—rather than underlying

increases in income or employment. These factors will reverse in February 2005.

- Corporate income tax revenues were up \$0.5 billion or 23.6 per cent, reflecting the year-over-year growth in corporate profits.
- Excise taxes and duties were up \$0.7 billion due to higher GST receipts, which were up \$0.7 billion or 29.3 per cent. The sharp rise in GST receipts reflects strong gross receipts in January, but also a continuing weakness in GST refunds, which have been very low year-to-date relative to the level of gross GST receipts. Customs import duties fell \$12 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge rose \$40 million.



- Employment insurance (EI) premiums were up 34.1 per cent, reflecting adjustments for under-reporting in previous months.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 2.9 per cent. This revenue component is volatile on a monthly basis.

Program expenses totalled \$13.6 billion in January 2005, up \$1.8 billion or 15.5 per cent from January 2004 due to increases in transfer payments and other program expenses.

Total transfer payments were up \$0.8 billion or 9.7 per cent in January 2005.

- Major transfers to persons, consisting of elderly and EI benefits, were 7.4 per cent higher on a year-over-year basis. Elderly benefits increased 4.3 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were up 12.2 per cent due to an increase in regular benefits, reflecting the inclusion of an additional payment cycle in January 2005 compared to January 2004.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up 9.1 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 7.9 per cent from January 2004, primarily reflecting the impact of recoveries in the 2003–04 fiscal year of overpayments made in prior years.
- Subsidies and other transfers were up 15.7 per cent. This component is volatile on a monthly basis, largely reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 26.8 per cent, due to both higher Crown corporation expenses and higher expenses related to defence and other departments and agencies. Defence expenses rose \$0.1 billion or 15.1 per cent, while expenses for all other departments and agencies rose \$0.8 billion or 30.7 per cent. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of measures from previous budgets.

Public debt charges were 3.6 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

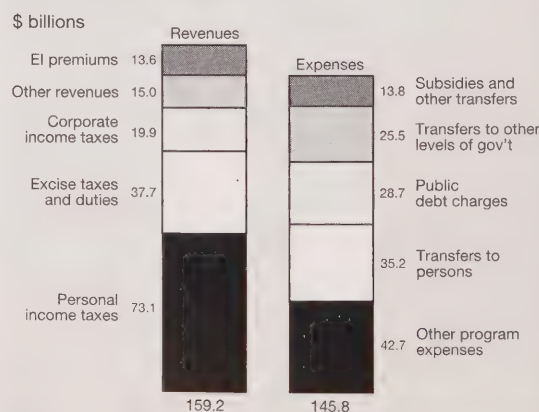
## April 2004 to January 2005: budgetary results

In the first 10 months of 2004–05, there was a budgetary surplus of \$13.4 billion, up \$5.3 billion from the \$8.1-billion surplus reported in the same period of 2003–04.

Budgetary revenues increased \$10.6 billion, or 7.1 per cent, to total \$159.2 billion. This increase reflects gains in tax revenues and other revenues, including \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums.

- Personal income tax revenues increased \$5.0 billion or 7.3 per cent. The year-over-year increase was higher than it otherwise would have been due to the extra processing cycle

## Revenues and expenses (April 2004–January 2005)





that boosted personal income tax receipts in January 2005, as discussed above. The increase also reflects higher employment and wages and salaries through the year.

- Corporate income tax revenues were up \$0.8 billion or 3.9 per cent. The year-to-date gain in corporate receipts reflects the impacts of large tax settlement payments received from the financial sector in December 2003 related to the revaluation of their U.S.-dollar-denominated liabilities in 2003. Absent this factor, underlying corporate receipts are up about 20 per cent year-to-date, in line with the growth in corporate profits.
- Excise taxes and duties increased \$2.9 billion or 8.2 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were up 11.8 per cent. The continued strong growth in GST receipts reflects ongoing weakness in GST refunds (up 3 per cent year-to-date). Over the balance of the year, it is expected that the growth in GST refunds will pick up to more closely reflect the increase in gross revenues, which were up 7.2 per cent year-to-date. Customs import duties were also up (3.5 per cent), while there were declines in both sales and excise taxes (down 0.4 per cent) and the Air Travellers Security Charge (down 3.0 per cent).

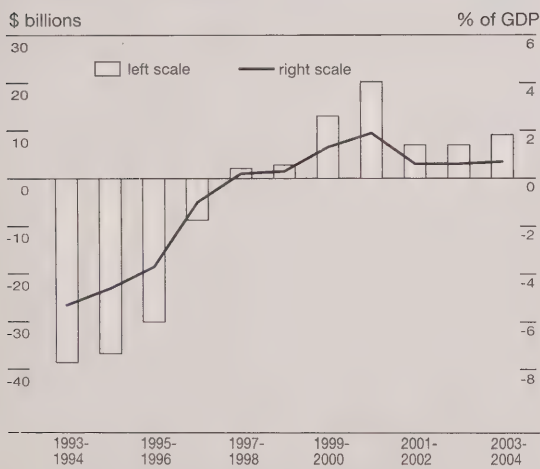
- EI premiums fell \$0.4 billion or 2.6 per cent, reflecting the reduction in premium rates from \$2.10 in 2003 to \$1.98 in 2004 and the further reduction to \$1.95 in 2005.
- Other revenues increased \$2.0 billion or 19.4 per cent. This increase reflects the sale of the Government's remaining shares in Petro-Canada. In the absence of this transaction, other revenues would have declined on a year-over-year basis.

On a year-over-year basis, program expenses in the April 2004 to January 2005 period were up 5.8 per cent to \$117.1 billion. Program expenses are expected to increase significantly over the balance of the year as the two proposed First Ministers' agreements on health care and equalization/TFF, and the measures proposed in the 2005 budget, receive Royal Assent. Public debt charges were \$1.1 billion lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

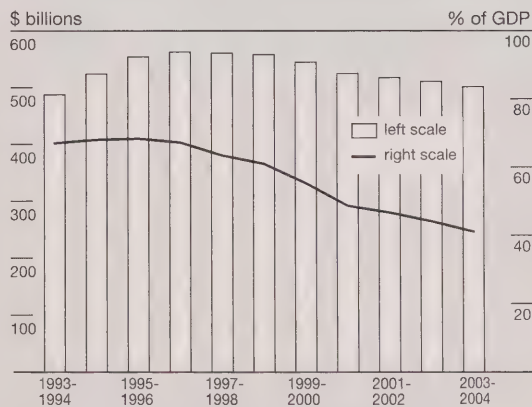
Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.9 billion or 5.5 per cent.

- Transfers to persons advanced by \$0.7 billion or 2.2 per cent. Elderly benefits were up 3.6 per cent, while EI benefits were down 0.5 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with improvements in the labour market.

## Budgetary balance



## Federal debt (accumulated deficit)





- Transfers to other levels of government were up \$2.0 billion or 8.7 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 8.3 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 First Ministers' agreements on health care and equalization/TFF. These will be included in the fiscal results once the legislation receives Royal Assent.
- Subsidies and other transfers increased by \$1.1 billion or 9.0 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$2.5 billion or 6.2 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$1.0 billion or 11.0 per cent, while expenses for all other departments and agencies were up \$1.6 billion or 6.1 per cent.

## **Financial source of \$7.9 billion for April 2004 to January 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including

payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.5 billion in the April 2004 to January 2005 period, an improvement of \$5.2 billion from the requirement in the same period of 2003–04. The improvement is primarily attributable to the unusually large cash requirements in the April 2003 to January 2004 period related to transfers to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway (\$600 million), and the Canada Foundation for Innovation (\$500 million). Dampening the improvement somewhat was an increase in financial requirements for pension and other accounts, reflecting payments to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$13.4 billion and a net requirement of \$5.5 billion from non-budgetary transactions, there was a financial source of \$7.9 billion in the first 10 months of 2004–05, compared to a requirement of \$2.5 billion in the same period of 2003–04.

## **Net financing activities down \$21.7 billion**

The Government used this financial source of \$7.9 billion and a reduction in its cash balances of \$13.8 billion to reduce its market debt by \$21.7 billion by the end of January 2005, largely through a reduction of marketable bonds and foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of January stood at \$3.5 billion.

Table 1

## Summary statement of transactions

	January		April to January	
	2004	2005	2003–04	2004–05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	15,508	18,824	148,634	159,222
Expenses				
Program expenses	-11,736	-13,556	-110,704	-117,107
Public debt charges	-2,963	-2,857	-29,791	-28,714
Budgetary balance (deficit/surplus)	809	2,411	8,139	13,401
<b>Non-budgetary transactions</b>	2,110	-930	-10,686	-5,514
<b>Financial source/requirement</b>	2,919	1,481	-2,547	7,887
<b>Net change in financing activities</b>	-6,533	-2,027	-8,487	-21,657
<b>Net change in cash balances</b>	-3,614	-546	-11,034	-13,770
<b>Cash balance at end of period</b>			3,666	3,480

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	January			April to January		
	2004	2005	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,200	8,677	20.5	68,138	73,101	7.3
Corporate income tax	1,907	2,358	23.6	19,100	19,854	3.9
Other income tax revenue	469	607	29.4	2,493	2,899	16.3
Total income tax	9,576	11,642	21.6	89,731	95,854	6.8
Excise taxes and duties						
Goods and services tax	2,417	3,125	29.3	23,860	26,679	11.8
Customs import duties	204	192	-5.9	2,426	2,511	3.5
Sales and excise taxes	724	759	4.8	8,188	8,154	-0.4
Air Travellers Security Charge	23	28	21.7	335	325	-3.0
Total excise taxes and duties	3,368	4,104	21.9	34,809	37,669	8.2
Total tax revenues	12,944	15,746	21.6	124,540	133,523	7.2
<b>Employment insurance premiums</b>	1,410	1,891	34.1	13,962	13,604	-2.6
<b>Other revenues</b>	1,154	1,187	2.9	10,132	12,095	19.4
<b>Total budgetary revenues</b>	15,508	18,824	21.4	148,634	159,222	7.1

# The Fiscal Monitor

Table 3

## Budgetary expenses

	January		Change	April to January		Change
	2004	2005		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,265	2,362	4.3	22,389	23,194	3.6
Employment insurance benefits	1,439	1,615	12.2	12,041	11,982	-0.5
Total	3,704	3,977	7.4	34,430	35,176	2.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			10,542	
Canada Social Transfer		652			6,521	
Health Reform Transfer	833	125	-85.0	833	1,250	50.1
Canada Health and Social Transfer	858			16,083		
Fiscal transfers	865	933	7.9	8,666	9,387	8.3
Alternative Payments for Standing Programs	-214	-210	-1.9	-2,116	-2,203	4.1
Total	2,342	2,554	9.1	23,466	25,497	8.7
Subsidies and other transfers						
Agriculture	135	146	8.1	1,091	826	-24.3
Foreign Affairs	317	310	-2.2	1,621	2,010	24.0
Health	199	234	17.6	1,432	1,494	4.3
Human Resources Development	178	264	48.3	1,164	1,050	-9.8
Indian and Northern Development	332	347	4.5	3,519	3,618	2.8
Industry and Regional Development	108	100	-7.4	1,209	1,490	23.2
Other	454	593	30.6	2,586	3,270	26.5
Total	1,723	1,994	15.7	12,622	13,758	9.0
Total transfer payments	7,769	8,525	9.7	70,518	74,431	5.5
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	89	108	21.3	970	980	1.0
Canada Mortgage and Housing Corporation	158	170	7.6	1,699	1,685	-0.8
Other	121	200	65.3	1,854	1,723	-7.1
Total	368	478	29.9	4,523	4,388	-3.0
Defence	961	1,106	15.1	9,371	10,405	11.0
All other departments and agencies	2,638	3,447	30.7	26,292	27,883	6.1
Total other program expenses	3,967	5,031	26.8	40,186	42,676	6.2
<b>Total program expenses</b>	11,736	13,556	15.5	110,704	117,107	5.8
<b>Public debt charges</b>	2,963	2,857	-3.6	29,791	28,714	-3.6
<b>Total budgetary expenses</b>	14,699	16,413	11.7	140,495	145,821	3.8



Table 4

## Budgetary balance and financial source/requirement

	January		April to January	
	2004	2005	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	809	2,411	8,139	13,401
<b>Non-budgetary transactions</b>				
Capital investing activities	-104	-86	-1,529	-1,088
Other investing activities	-471	-614	-1,917	-2,485
Pension and other accounts	287	-619	710	-2,464
Other activities				
Accounts payable, receivables, accruals and allowances	2,325	1,015	-12,154	-5,138
Foreign exchange activities	-166	-868	1,799	3,091
Amortization of tangible capital assets	239	242	2,405	2,570
Total other activities	2,398	389	-7,950	523
<b>Total non-budgetary transactions</b>	2,110	-930	-10,686	-5,514
<b>Net financial source/requirement</b>	2,919	1,481	-2,547	7,887

Table 5

## Financial source/requirement and net financing activities

	January		April to January	
	2004	2005	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	2,919	1,481	-2,547	7,887
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-60	387	-12,213	-15,523
Treasury bills	-6,600	-2,450	5,600	1,200
Canada Savings Bonds	32	-96	-1,534	-1,964
Other			91	-28
Total	-6,628	-2,159	-8,056	-16,315
Foreign currency borrowings	124	69	-383	-5,473
Total	-6,504	-2,090	-8,439	-21,788
Obligations related to capital leases	-29	63	-48	131
<b>Net change in financing activities</b>	-6,533	-2,027	-8,487	-21,657
<b>Change in cash balance</b>	-3,614	-546	-11,034	-13,770

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	January 31, 2005	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	74,329	-5,635
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	263,257	-15,523
Treasury bills	113,378	114,578	1,200
Canada Savings Bonds	21,330	19,366	-1,964
Other	3,427	3,399	-28
Subtotal	416,915	400,600	-16,315
Payable in foreign currencies	20,542	15,069	-5,473
Obligations related to capital leases	2,774	2,905	131
Total unmaturred debt	440,231	418,574	-21,657
Pension and other accounts			
Public sector pensions	127,560	129,173	1,613
Other employee and veteran future benefits	39,367	39,618	251
Canada Pension Plan (net of securities)	7,483	3,627	-3,856
Other pension and other accounts	6,488	6,017	-471
Total pension and other accounts	180,898	178,434	-2,464
Total interest-bearing debt	621,129	597,008	-24,121
<b>Total liabilities</b>	701,093	671,336	-29,756
<b>Financial assets</b>			
Cash and accounts receivable	70,921	56,654	-14,267
Foreign exchange accounts	44,312	41,221	-3,091
Loans, investments and advances (net of allowances)	29,548	32,033	2,485
Total financial assets	144,781	129,908	-14,873
<b>Net debt</b>	556,311	541,428	-14,883
<b>Non-financial assets</b>	54,817	53,335	-1,482
<b>Federal debt (accumulated deficit)</b>	501,494	488,093	-13,401

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March 2005

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### February 2005

There was a budgetary surplus of \$5.8 billion in February 2005, up from the surplus of \$3.8 billion recorded in February 2004. This increase is due in large part to stronger corporate income tax receipts, which rose \$1.3 billion or 28.9 per cent from the same month last year. The gain in corporate receipts reflects the timing of year-end corporate settlement payments, some of which last year were received one month later, in March 2004. The surplus was also supported by higher net goods and services tax (GST) receipts, which rose \$0.6 billion or 29.3 per cent, a growth rate that continues to be far in excess of the growth of taxable consumption and reflects ongoing weakness in GST refunds. Growth of GST refunds is expected to pick up in the coming months. Program expenses were \$0.2 billion lower in February 2005, reflecting lower transfer payments. Public debt charges were also \$0.2 billion lower in February.

### April 2004 to February 2005

For the first 11 months of the 2004–05 fiscal year (April to February), the budgetary surplus is estimated at \$19.2 billion, up \$7.2 billion from the surplus reported in the same period last year.

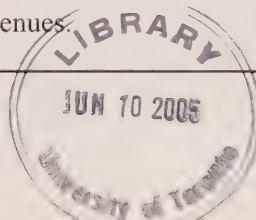
**Taking into account a number of factors, the results to date are broadly consistent with the expected outcome of a \$3-billion surplus in 2004–05 as set out in the 2005 budget.**

- The monthly results to date do not reflect the significant fiscal impacts of a number of initiatives that have already been announced. The legislative authorities to put the federal-provincial-territorial agreements on health care and equalization/Territorial Formula Financing (TFF) into effect were received in March 2005 and the fiscal cost of these measures (\$7.2 billion) will be recorded in March. The March 2005 results will also incorporate the costs associated with the recently announced agricultural assistance package (\$1 billion). The final 2004–05 year-end results will be further affected by the impact of the new initiatives proposed in the 2005 budget (\$3.9 billion). **In total some \$12 billion in new already announced expenses will be incorporated in March and the supplementary period.**
- The February results reflect extraordinarily high growth in corporate income tax and net GST receipts. As indicated above, both corporate income tax and GST receipts were up 29 per cent over last year, while their underlying tax bases (corporate profits and retail trade) were up 17.7 per cent and 5.5 per cent, respectively. **The growth of corporate receipts is expected to moderate in March to be more in line with the growth of profits. It is also expected that in March 2005 and in the year-end supplementary period, there will be a reversal of some of the recent increases in GST revenues, bringing them more in line with the observed growth in their applicable tax base.**
- As well, because of the seasonal pattern of receipts and expenses, deficits are traditionally recorded in both March and the end-of-year supplementary period.

### February 2005: budgetary results

The February 2005 budgetary surplus was estimated at \$5.8 billion, up from the surplus of \$3.8 billion in February 2004.

Budgetary revenues totalled \$19.8 billion in the month, up \$1.5 billion or 8.3 per cent from February 2004. This increase is due to significantly higher corporate income tax and GST revenues, which more than offset lower personal income tax revenues.





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- Personal income tax revenues fell \$0.7 billion or 8.1 per cent on a year-over-year basis. As discussed in the January *Fiscal Monitor*, this decline reflects the fact that there was an extra processing cycle in January 2005, which boosted receipts in that month.
- Corporate income tax revenues were up \$1.3 billion or 28.9 per cent on a year-over-year basis. This gain in corporate receipts reflects year-end corporate settlement payments, some of which last year were received in both February and March.
- Excise taxes and duties were up \$0.6 billion in February 2005 compared to February 2004. This increase is almost entirely due to higher GST receipts, which were up \$0.6 billion or 29.3 per cent. Although the year-over-year gain in gross GST receipts was roughly in line with the growth in the applicable tax base, the growth in refunds, which should match the growth in gross receipts over time, was considerably weaker. Customs import duties rose \$38 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge declined \$21 million.
- Employment insurance (EI) premiums were up 3.1 per cent, reflecting increases in employment and wages and salaries, which more than offset the decline in premium rates.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 12.5 per cent. This revenue component is volatile on a monthly basis.

Program expenses in February 2005 totalled \$11.3 billion, down \$0.2 billion or 2.0 per cent from February 2004 due to lower transfer payments.

Transfer payments were down \$0.8 billion or 10.6 per cent in February 2005.

- Transfers to persons, consisting of elderly and EI benefits, were 3.6 per cent lower on a year-over-year basis. Elderly benefits increased 4.1 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were down 14.1 per cent due to a decrease in regular benefits. This reflects the inclusion of an additional payment cycle in January 2005, which boosted expenses in that month and subsequently lowered them in February.

- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were down 3.8 per cent.
- Subsidies and other transfers were down 37.6 per cent. This component is volatile on a monthly basis, largely reflecting the timing of payments.

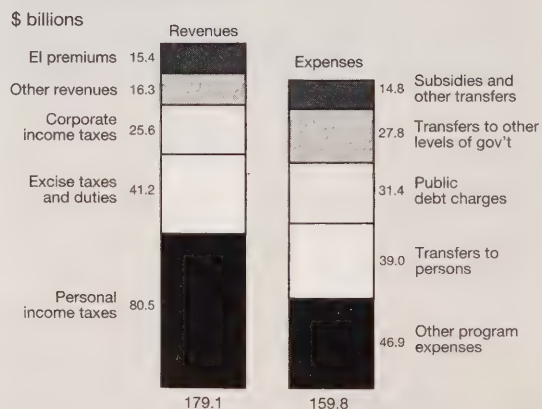
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 16.6 per cent due to higher expenses related to other departments and agencies. Defence expenses fell slightly by \$10 million or 1.0 per cent in February, while expenses for all other departments and agencies rose by \$0.6 billion or 26.9 per cent. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of previous budget measures.

Public debt charges were 7.6 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

## April 2004 to February 2005: budgetary results

Through the first 11 months of 2004–05, there was a budgetary surplus of \$19.2 billion, up \$7.2 billion from the \$12-billion surplus reported in the same period of 2003–04.

**Revenues and expenses**  
(April 2004–February 2005)



Budgetary revenues increased \$12.1 billion, or 7.3 per cent, to total \$179.1 billion. This increase reflects strong gains in corporate income tax and GST revenues, as well as the \$2.6-billion net gain from the sale of the Government's remaining shares in Petro-Canada.

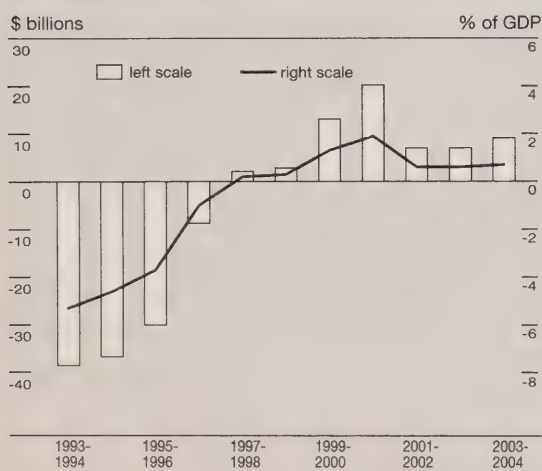
- Personal income tax revenues increased \$4.3 billion or 5.7 per cent through February. This year-over-year increase is consistent with higher employment and wages and salaries through the year.
- Corporate income tax revenues were up \$2.1 billion or 8.7 per cent. This year-over-year gain was dampened by the inclusion in the 2003-04 results of unusually large gains recorded by the financial sector related to the revaluation of U.S.-dollar-denominated liabilities in 2003. Absent this factor, underlying corporate receipts are up about 22 per cent year to date, somewhat higher than the estimated growth in corporate profits in 2004.
- Excise taxes and duties increased \$3.5 billion or 9.1 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were \$3.4 billion or 13.1 per cent higher than the previous year. The continued strong growth in GST receipts reflects ongoing weakness in GST refunds (up 2.6 per cent year to date) compared to gross receipts (up 7.6 per cent). On balance, the growth in refunds should correspond closely to the growth in gross

receipts. It is expected that in March 2005 and the year-end supplementary period, refunds will pick up, bringing net GST revenues more in line with the growth in the applicable tax base. Customs import duties were up \$0.1 billion, while sales and excise taxes and the Air Travellers Security Charge were down a combined \$0.1 billion.

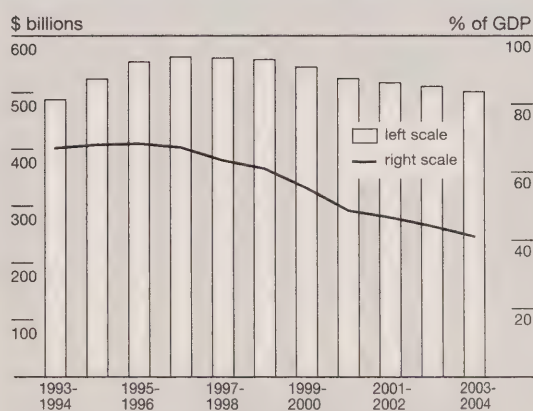
- EI premiums declined \$0.3 billion or 1.9 per cent, reflecting the reduction in premium rates (the employee rate declined from \$2.10 in 2003 to \$1.98 in 2004 and to \$1.95 in 2005 per \$100 of insurable earnings), which more than offset the impact of increases in employment and earnings.
- Other revenues increased \$2.1 billion or 18.8 per cent due to the sale of the Government's remaining shares of Petro-Canada. In the absence of this transaction, other revenues (which include net gains from the Exchange Fund Account, interest and net gains from enterprise Crown corporations) declined on a year-over-year basis, primarily due to lower gains in the Exchange Fund Account.

On a year-over-year basis, program expenses in the April 2004 to February 2005 period were up 5.0 per cent to \$128.4 billion. However, program expenses will increase significantly in March 2005, when the fiscal impacts of the federal-provincial-territorial agreements on health care and equalization/TFF and the recently

## Budgetary balance



## Federal debt (accumulated deficit)





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announced agricultural assistance package are included. In addition, the final results will incorporate the fiscal impact of measures proposed in the 2005 budget, once the applicable legislation receives Royal Assent. Public debt charges were \$1.3 billion lower than in the first 11 months of 2003–04, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.1 billion, or 3.9 per cent.

- Transfers to persons advanced by \$0.6 billion or 1.6 per cent. Elderly benefits were up 3.6 per cent while EI benefits were down 2.1 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with improvements in the labour market.
- Transfers to other levels of government were up \$1.9 billion, or 7.5 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 5.1 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 federal-provincial-territorial agreements on health care and equalization/TFF. These will be included in the March fiscal results.
- Subsidies and other transfers increased by \$0.5 billion, or 3.7 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$3.1 billion, or 7.1 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$1.0 billion or 9.9 per cent, while expenses for all other departments and agencies were up \$2.2 billion or 7.8 per cent.

## **Financial source of \$8.5 billion for April 2004 to February 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or

incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.8 billion in the April 2004 to February 2005 period, up \$1.1 billion from a requirement of \$9.7 billion in the same period of 2003–04. The higher requirement primarily reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$19.2 billion and a net requirement of \$10.8 billion from non-budgetary transactions, there was a financial source of \$8.5 billion in the first 11 months of 2004–05, compared to a source of \$2.3 billion in the same period of 2003–04.

## **Net financing activities down \$18.4 billion**

The Government used this financial source of \$8.5 billion and a reduction in its cash balances of \$10.0 billion to reduce its market debt by \$18.4 billion by the end of February 2005, largely by reducing its holdings of marketable bonds and foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of February stood at \$7.3 billion.



Table 1  
Summary statement of transactions

	February		April to February	
	2004	2005	2003-04	2004-05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	18,315	19,842	166,952	179,066
Expenses				
Program expenses	-11,534	-11,300	-122,238	-128,408
Public debt charges	-2,946	-2,722	-32,737	-31,436
Budgetary balance (deficit/surplus)	3,835	5,820	11,977	19,222
<b>Non-budgetary transactions</b>	979	-5,249	-9,707	-10,760
<b>Financial source/requirement</b>	4,814	571	2,270	8,462
<b>Net change in financing activities</b>	-2,300	3,221	-10,787	-18,437
<b>Net change in cash balances</b>	2,514	3,792	-8,517	-9,975
<b>Cash balance at end of period</b>			6,181	7,273

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	February			April to February		
	2004	2005	Change	2003-04	2004-05	Change
	(\$ millions)			(\$ millions)		
<b>Tax revenues</b>			(%)			(%)
Income taxes						
Personal income tax	8,023	7,372	-8.1	76,162	80,474	5.7
Corporate income tax	4,485	5,780	28.9	23,585	25,635	8.7
Other income tax revenue	224	352	57.1	2,717	3,251	19.7
Total income tax	12,732	13,504	6.1	102,464	109,360	6.7
Excise taxes and duties						
Goods and services tax	1,966	2,542	29.3	25,826	29,221	13.1
Customs import duties	237	275	16.0	2,663	2,785	4.6
Sales and excise taxes	741	723	-2.4	8,927	8,878	-0.5
Air Travellers Security Charge	34	31	-8.8	369	356	-3.5
Total excise taxes and duties	2,978	3,571	19.9	37,785	41,240	9.1
Total tax revenues	15,710	17,075	8.7	140,249	150,600	7.4
<b>Employment insurance premiums</b>	1,743	1,797	3.1	15,705	15,401	-1.9
<b>Other revenues</b>	862	970	12.5	10,998	13,065	18.8
<b>Total budgetary revenues</b>	18,315	19,842	8.3	166,952	179,066	7.3

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Table 3

## Budgetary expenses

	February		Change	April to February		Change
	2004	2005		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,274	2,367	4.1	24,662	25,561	3.6
Employment insurance benefits	1,656	1,423	-14.1	13,698	13,405	-2.1
Total	3,930	3,790	-3.6	38,360	38,966	1.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			11,596	
Canada Social Transfer		651			7,173	
Health Reform Transfer	83	125	50.6	917	1,375	49.9
Canada Health and Social Transfer	1,608			17,692		
Fiscal transfers	865	634	-26.7	9,530	10,020	5.1
Alternative Payments for Standing Programs	-214	-210	-1.9	-2,330	-2,413	3.6
Total	2,342	2,254	-3.8	25,809	27,751	7.5
Subsidies and other transfers						
Agriculture	32	0	-100.0	1,123	826	-26.4
Foreign Affairs	224	200	-10.7	1,845	2,210	19.8
Health	119	124	4.2	1,551	1,618	4.3
Human Resources Development	280	104	-62.9	1,445	1,154	-20.1
Indian and Northern Development	267	285	6.7	3,786	3,903	3.1
Industry and Regional Development	312	-16	-105.1	1,521	1,474	-3.1
Other	385	313	-18.7	2,974	3,583	20.5
Total	1,619	1,010	-37.6	14,245	14,768	3.7
Total transfer payments	7,891	7,054	-10.6	78,414	81,485	3.9
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	84	65	-22.6	1,055	1,045	-0.9
Canada Mortgage and Housing Corporation	161	170	5.6	1,860	1,855	-0.3
Other	106	107	0.9	1,959	1,830	-6.6
Total	351	342	-2.6	4,874	4,730	-3.0
Defence	984	974	-1.0	10,356	11,379	9.9
All other departments and agencies	2,308	2,930	26.9	28,594	30,814	7.8
Total other program expenses	3,643	4,246	16.6	43,824	46,923	7.1
<b>Total program expenses</b>	11,534	11,300	-2.0	122,238	128,408	5.0
<b>Public debt charges</b>	2,946	2,722	-7.6	32,737	31,436	-4.0
<b>Total budgetary expenses</b>	14,480	14,022	-3.2	154,975	159,844	3.1

Table 4

## Budgetary balance and financial source/requirement

	February		April to February	
	2004	2005	2003-04	2004-05
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	3,835	5,820	11,977	19,222
<b>Non-budgetary transactions</b>				
Capital investing activities	-133	-313	-1,663	-1,402
Other investing activities	-234	-192	-2,152	-2,677
Pension and other accounts	554	-985	1,265	-3,448
Other activities				
Accounts payable, receivables, accruals and allowances	-153	-2,839	-12,306	-7,974
Foreign exchange activities	627	-1,166	2,426	1,925
Amortization of tangible capital assets	318	246	2,723	2,816
Total other activities	792	-3,759	-7,157	-3,233
<b>Total non-budgetary transactions</b>	979	-5,249	-9,707	-10,760
<b>Net financial source/requirement</b>	4,814	571	2,270	8,462

Table 5

## Financial source/requirement and net financing activities

	February		April to February	
	2004	2005	2003-04	2004-05
(\$ millions)				
<b>Net financial source/requirement</b>	4,814	571	2,270	8,462
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	984	1,887	-11,229	-13,636
Treasury bills	-3,500	1,100	2,100	2,300
Canada Savings Bonds	-131	-196	-1,665	-2,161
Other		-1	91	-29
Total	-2,647	2,790	-10,703	-13,526
Foreign currency borrowings	350	397	-33	-5,076
Total	-2,297	3,187	-10,736	-18,602
Obligations related to capital leases	-3	34	-51	165
<b>Net change in financing activities</b>	-2,300	3,221	-10,787	-18,437
<b>Change in cash balance</b>	2,514	3,792	-8,517	-9,975



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	February 28, 2005	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	77,559	-2,405
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	265,144	-13,636
Treasury bills	113,378	115,678	2,300
Canada Savings Bonds	21,330	19,169	-2,161
Other	3,427	3,398	-29
Subtotal	416,915	403,389	-13,526
Payable in foreign currencies	20,542	15,466	-5,076
Obligations related to capital leases	2,774	2,939	165
Total unmatured debt	440,231	421,794	-18,437
Pension and other accounts			
Public sector pensions	127,560	129,307	1,747
Other employee and veteran future benefits	39,367	39,650	283
Canada Pension Plan (net of securities)	7,483	2,658	-4,825
Other pension and other accounts	6,488	5,835	-653
Total pension and other accounts	180,898	177,450	-3,448
Total interest-bearing debt	621,129	599,244	-21,885
<b>Total liabilities</b>	701,093	676,803	-24,290
<b>Financial assets</b>			
Cash and accounts receivable	70,921	66,515	-4,406
Foreign exchange accounts	44,312	42,387	-1,925
Loans, investments and advances (net of allowances)	29,548	32,225	2,677
Total financial assets	144,781	141,127	-3,654
<b>Net debt</b>	556,311	535,675	-20,636
<b>Non-financial assets</b>	54,817	53,403	-1,414
<b>Federal debt (accumulated deficit)</b>	501,494	482,272	-19,222

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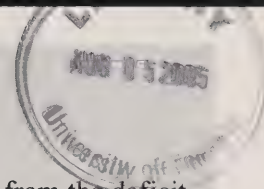
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April 2005

# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### March 2005

There was a budgetary deficit of \$9.5 billion in March 2005, a deterioration of \$6.3 billion from the deficit of \$3.2 billion recorded in March 2004. The deterioration is primarily attributable to the \$7.2 billion in transfers related to the federal-provincial-territorial agreements on health care and equalization/Territorial Formula Financing (TFF). The legislative authorities for these transfers received Royal Assent in March.

### April 2004 to March 2005

The budgetary surplus is estimated at \$9.8 billion for the April 2004 to March 2005 period, up \$1.0 billion from the surplus reported in the same period last year.

Program expenses were up \$13.7 billion or 9.9 per cent in the April 2004 to March 2005 period, primarily due to higher transfer payments, reflecting the effects of the federal-provincial-territorial agreements on health care and equalization/TFF, which were expensed in March 2005. Public debt charges were down \$1.5 billion or 4.2 per cent, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

On a year-over-year basis, budgetary revenues were up \$13.2 billion or 7.2 per cent in the April 2004 to March 2005 period compared to the same period in 2003–04. The higher revenues primarily reflect strong corporate income tax receipts. The underlying increase in corporate income tax revenues is nearly double the current estimated growth in corporate profits for 2004. Corporate income tax receipts over the April 2004 to March 2005 period are about \$2 billion higher than anticipated at the time of the budget.

**These are not the final results for the year as a whole. The April 2004 to March 2005 monthly results do not reflect the impact of the new initiatives proposed in the 2005 budget, which total \$2.5 billion. Nor do the results reflect the regular end-of-year accounting adjustments, which incorporate the costs of liabilities incurred during the fiscal year for which no payments were made in 2004–05, and final tax accrual adjustments. As a result, it is too early to determine whether the budgetary surplus will be greater than the \$3 billion projected for 2004–05 in the 2005 budget.**

### March 2005: budgetary results

There was a budgetary deficit of \$9.5 billion in March 2005, up from the deficit of \$3.2 billion recorded in March 2004.

Budgetary revenues totalled \$17.8 billion, an increase of \$1.1 billion or 6.5 per cent from March 2004. This gain is due to higher personal and corporate income tax receipts, which were somewhat offset by lower GST and other revenues.

- Personal income tax revenues rose \$1.2 billion or 16.9 per cent on a year-over-year basis due to timing factors in the processing of source deductions.

- Corporate income tax revenues were up \$0.8 billion or 24.1 per cent on a year-over-year basis. This gain is attributable to final year-end corporate settlement payments from the manufacturing sector in March 2005, which were up \$1 billion from last year. Monthly instalment payments from the manufacturing sector were down through the first 11 months of 2004–05 and, as a result, the settlement payments in March alone accounted for the entire increase in receipts from this sector for 2004–05 as a whole.



# The Fiscal Monitor

- Excise taxes and duties in March 2005 were down \$0.3 billion compared to March 2004, almost entirely due to lower GST receipts. As discussed in previous editions of *The Fiscal Monitor*, declines in net GST receipts have been expected, as net receipts in the latter half of the year have grown very strongly compared to taxable income as a result of weak GST refund growth. Customs import duties rose \$20 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge declined \$15 million.
- Employment insurance (EI) premiums were up 3.2 per cent, reflecting increases in employment and wages and salaries, which more than offset the decline in premium rates.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, fell 72.4 per cent. This decline is largely due to losses on the year-end revaluation of the Government's holdings of U.S.-dollar-denominated assets resulting from the appreciation of the Canadian dollar.

Program expenses in March 2005 totalled \$24.5 billion, up \$7.6 billion or 44.6 per cent from March 2004. The increase is mainly due to higher transfer payments.

Transfer payments were up \$7.5 billion or 63.5 per cent in March 2005.

- Transfers to persons, consisting of elderly and EI benefits, were 1.0 per cent higher on a year-over-year basis. Elderly benefits increased by \$88 million due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were down \$50 million due to a decrease in regular benefits.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$6.3 billion. This increase is due to liabilities for the new initiatives under the 2004 First Ministers' agreements on health care and equalization/TFF.
- Subsidies and other transfers were up \$1.2 billion, reflecting increases in agricultural assistance and foreign aid. This component is volatile on a monthly basis, largely reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up slightly by 1.4 per cent, as increases in transfers to Crown corporations and expenses related to other departments and agencies were largely offset by a decrease in defence expenses. Defence expenses fell by \$336 million or 17.5 per cent, while expenses for all other departments and agencies rose by \$325 million or 11.4 per cent and transfers to Crown corporations rose by \$82 million or 21.0 per cent. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of measures from previous budgets.

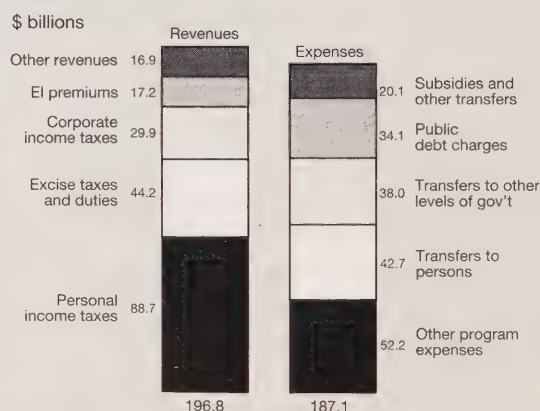
Public debt charges were 7.2 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

## April 2004 to March 2005: budgetary results

In the April 2004 to March 2005 period, there was a budgetary surplus of \$9.8 billion, up \$1.0 billion from the \$8.8-billion surplus reported in the same period of 2003-04.

Budgetary revenues increased \$13.2 billion or 7.2 per cent to total \$196.8 billion. This increase reflects strong gains in corporate income tax and GST revenues, as well as the \$2.6-billion net gain from the sale of the Government's remaining shares in Petro-Canada.

### Revenues and expenses (April 2004-March 2005)





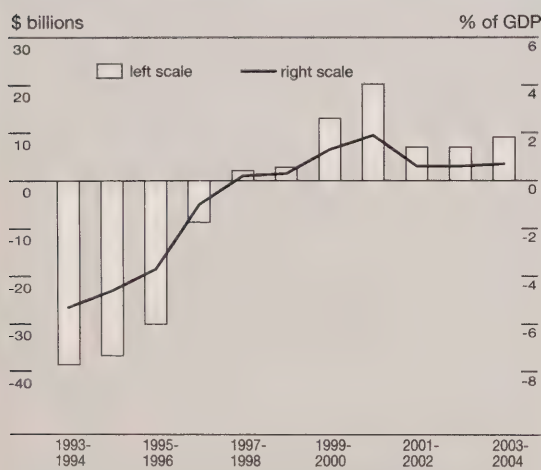
- Personal income tax revenues increased by \$5.5 billion or 6.6 per cent, reflecting year-over-year gains in employment and wages and salaries through the year.
- Corporate income tax revenues were up \$2.9 billion or 10.6 per cent. This gain was dampened by the inclusion in the 2003–04 results of unusually large gains recorded by the financial sector related to the revaluation of U.S.-dollar-denominated liabilities in 2003, as well as the 2-percentage-point decline in the general corporate income tax rate in 2004. Absent these two factors, underlying corporate receipts are up about 29 per cent year to date, stronger than the estimated growth in corporate profits of 17.7 per cent in 2004. The 2005 budget projected an underlying increase in net corporate income tax receipts of over 20 per cent, somewhat higher than the 17.7 per cent growth in corporate profits.
- Excise taxes and duties increased by \$3.1 billion or 7.6 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were \$3.1 billion or 10.9 per cent higher than last year. The strong growth in GST receipts in the April-to-March period reflects ongoing weakness in GST refunds (up 3.0 per cent) relative to gross receipts (up 6.8 per cent). On balance, the growth in refunds should correspond closely to the growth in gross receipts. Net receipts declined in March 2005

to bring net GST revenues more in line with the growth in the applicable tax base. It is expected that refunds will continue to pick up relative to gross receipts through the year-end accrual adjustments. Customs import duties were up \$0.1 billion, while there were declines in both sales and excise taxes and the Air Travellers Security Charge, which together declined \$0.1 billion.

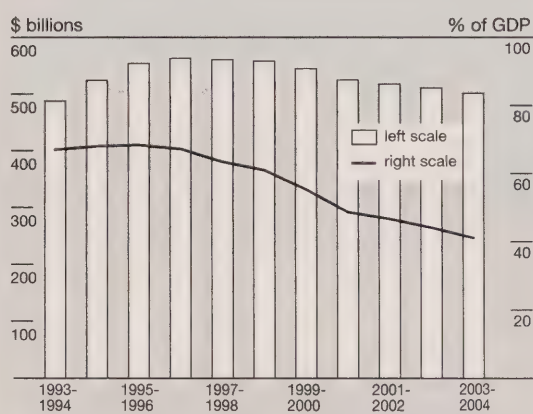
- EI premiums declined \$0.3 billion or 1.4 per cent, reflecting the reduction in premium rates (the employee rate declined from \$2.10 in 2003 to \$1.98 in 2004 and to \$1.95 in 2005 per \$100 of insurable earnings), which more than offset the impact of increases in employment and earnings.
- Other revenues increased \$1.3 billion or 10.8 per cent due to the sale of the Government's remaining shares of Petro-Canada. The other components in this category (which include net gains from the Exchange Fund Account, interest and net gains from enterprise Crown corporations) were lower on a year-over-year basis, reflecting the impact of the appreciation of the Canadian dollar and the decline in interest rates.

On a year-over-year basis, program expenses in the April 2004 to March 2005 period were up 9.9 per cent to \$153.0 billion, mainly due to increased transfers under the 2004 First Ministers' agreements on health care and equalization/TFF. Public debt charges were \$1.5 billion lower than in the same period of 2003–04, reflecting the impact

## Budgetary balance



## Federal debt (accumulated deficit)



of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$10.6 billion or 11.7 per cent.

- Transfers to persons advanced by \$0.6 billion or 1.5 per cent. Elderly benefits were up 3.7 per cent while EI benefits were down 2.3 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with improvements in the labour market.
- Transfers to other levels of government were up \$8.2 billion or 27.6 per cent, reflecting higher transfers in support of health and other social programs, resulting from the 2004 First Ministers' agreements on health care and equalization/TFE.
- Subsidies and other transfers increased by \$1.7 billion or 9.2 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$3.2 billion or 6.5 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$0.7 billion or 5.6 per cent, while expenses for all other departments and agencies were up \$2.5 billion or 8.1 per cent.

## **Financial source of \$4.7 billion for April 2004 to March 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary

balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.1 billion in the April 2004 to March 2005 period, up \$1.7 billion from a requirement \$3.4 billion in 2003-04. The higher requirement primarily reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$9.8 billion and a net requirement of \$5.1 billion from non-budgetary transactions, there was a financial source of \$4.7 billion in the April 2004 to March 2005 period, compared to a source of \$5.4 billion in the same period last year.

## **Net financing activities down \$4.8 billion**

The Government used this financial source of \$4.7 billion and a reduction in its cash balances of \$0.1 billion to reduce its market debt by \$4.8 billion, largely by reducing its holdings of foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of March stood at \$17.1 billion.

Table 1

## Summary statement of transactions

	March		April to March	
	2004	2005	2003-04	2004-05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	16,693	17,777	183,645	196,842
Expenses				
Program expenses	-16,976	-24,545	-139,214	-152,954
Public debt charges	-2,896	-2,687	-35,633	-34,122
Budgetary balance (deficit/surplus)	-3,179	-9,455	8,798	9,766
<b>Non-budgetary transactions</b>	6,269	5,657	-3,440	-5,105
<b>Financial source/requirement</b>	3,090	-3,798	5,358	4,661
<b>Net change in financing activities</b>	7,978	13,647	-2,807	-4,790
<b>Net change in cash balances</b>	11,068	9,849	2,551	-129
<b>Cash balance at end of period</b>			17,250	17,122

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	March			April to March		
	2004	2005	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,026	8,213	16.9	83,187	88,686	6.6
Corporate income tax	3,415	4,238	24.1	27,000	29,872	10.6
Other income tax revenue	195	316	62.1	2,912	3,567	22.5
Total income tax	10,636	12,767	20.0	113,099	122,125	8.0
Excise taxes and duties						
Goods and services tax	2,278	1,939	-14.9	28,104	31,161	10.9
Customs import duties	229	249	8.7	2,892	3,034	4.9
Sales and excise taxes	731	728	-0.4	9,660	9,606	-0.6
Air Travellers Security Charge	45	33	-26.7	414	389	-6.0
Total excise taxes and duties	3,283	2,949	-10.2	41,070	44,190	7.6
Total tax revenues	13,919	15,716	12.9	154,169	166,315	7.9
<b>Employment insurance premiums</b>	1,713	1,768	3.2	17,419	17,169	-1.4
<b>Other revenues</b>	1,061	293	-72.4	12,057	13,358	10.8
<b>Total budgetary revenues</b>	16,693	17,777	6.5	183,645	196,842	7.2



# The Fiscal Monitor

Table 3

## Budgetary expenses

	March		Change	April to March		Change
	2004	2005		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,277	2,365	3.9	26,939	27,926	3.7
Employment insurance benefits	1,378	1,328	-3.6	15,076	14,734	-2.3
Total	3,655	3,693	1.0	42,015	42,660	1.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		6,804			18,400	
Canada Social Transfer		727			7,900	
Health Reform Transfer	83	125	50.6	1,000	1,500	50.0
Canada Health and Social Transfer	3,608	31		21,300	31	
Fiscal transfers	550	2,882	424.0	10,081	12,902	28.0
Alternative Payments for Standing Programs	-285	-333	16.8	-2,615	-2,746	5.0
Total	3,956	10,236	158.7	29,766	37,987	27.6
Subsidies and other transfers						
Agriculture	1,235	1,748	41.5	2,358	2,574	9.2
Foreign Affairs	674	1,182	75.4	2,519	3,391	34.6
Health	508	246	-51.6	2,059	1,864	-9.5
Human Resources Development	169	49	-71.0	1,614	1,203	-25.5
Indian and Northern Development	481	452	-6.0	4,268	4,354	2.0
Industry and Regional Development	288	207	-28.1	1,809	1,681	-7.1
Other	846	1,497	77.0	3,818	5,080	33.1
Total	4,201	5,381	28.1	18,445	20,147	9.2
Total transfer payments	11,812	19,310	63.5	90,226	100,794	11.7
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	20	0	-100.0	1,074	1,045	-2.7
Canada Mortgage and Housing Corporation	205	190	-7.3	2,065	2,045	-1.0
Other	166	283	70.5	2,125	2,113	-0.6
Total	391	473	21.0	5,264	5,203	-1.2
Defence	1,919	1,583	-17.5	12,274	12,962	5.6
All other departments and agencies	2,854	3,179	11.4	31,450	33,995	8.1
Total other program expenses	5,164	5,235	1.4	48,988	52,160	6.5
<b>Total program expenses</b>	16,976	24,545	44.6	139,214	152,954	9.9
<b>Public debt charges</b>	2,896	2,687	-7.2	35,633	34,122	-4.2
<b>Total budgetary expenses</b>	19,872	27,232	37.0	174,847	187,076	7.0

Table 4

## Budgetary balance and financial source/requirement

	March		April to March	
	2004	2005	2003-04	2004-05
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-3,179	-9,455	8,798	9,766
<b>Non-budgetary transactions</b>				
Capital investing activities	-137	-861	-1,800	-2,263
Other investing activities	-4	-1,033	-2,483	-3,048
Pension and other accounts	970	228	2,224	-3,228
Other activities				
Accounts payable, receivables, accruals and allowances	3,352	5,305	-8,618	-3,324
Foreign exchange activities	1,793	1,517	4,219	3,441
Amortization of tangible capital assets	295	501	3,018	3,317
Total other activities	5,440	7,323	-1,381	3,434
<b>Total non-budgetary transactions</b>	6,269	5,657	-3,440	-5,105
<b>Net financial source/requirement</b>	3,090	-3,798	5,358	4,661

Table 5

## Financial source/requirement and net financing activities

	March		April to March	
	2004	2005	2003-04	2004-05
(\$ millions)				
<b>Net financial source/requirement</b>	3,090	-3,798	5,358	4,661
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,921	1,348	-9,307	-12,288
Treasury bills	6,700	11,500	8,800	13,800
Canada Savings Bonds	-15	-83	-1,680	-2,244
Other	-34	-6	57	-35
Total	8,572	12,759	-2,130	-767
Foreign currency borrowings	-564	822	-597	-4,254
Total	8,008	13,581	-2,727	-5,021
Obligations related to capital leases	-30	66	-80	231
<b>Net change in financing activities</b>	7,978	13,647	-2,807	-4,790
<b>Change in cash balance</b>	11,068	9,849	2,551	-129

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	March 31, 2005	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	75,909	-4,055
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	266,492	-12,288
Treasury bills	113,378	127,178	13,800
Canada Savings Bonds	21,330	19,086	-2,244
Other	3,427	3,392	-35
Subtotal	416,915	416,148	-767
Payable in foreign currencies	20,542	16,288	-4,254
Obligations related to capital leases	2,774	3,005	231
Total unmaturred debt	440,231	435,441	-4,790
Pension and other accounts			
Public sector pensions	127,560	129,430	1,870
Other employee and veteran future benefits	39,367	39,675	308
Canada Pension Plan (net of securities)	7,483	2,763	-4,720
Other pension and other accounts	6,488	5,802	-686
Total pension and other accounts	180,898	177,670	-3,228
Total interest-bearing debt	621,129	613,111	-8,018
<b>Total liabilities</b>	701,093	689,020	-12,073
<b>Financial assets</b>			
Cash and accounts receivable	70,922	70,062	-860
Foreign exchange accounts	44,312	40,871	-3,441
Loans, investments and advances (net of allowances)	29,548	32,596	3,048
Total financial assets	144,782	143,529	-1,253
<b>Net debt</b>	556,311	545,491	-10,820
<b>Non-financial assets</b>	54,817	53,763	-1,054
<b>Federal debt (accumulated deficit)</b>	501,494	491,728	-9,766

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May 2005



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# La revue financière

Publication du ministère des Finances

## Faits saillants

### Mars 2005

Un déficit budgétaire de 9,5 milliards de dollars a été constaté en mars 2005, en hausse de 6,3 milliards par rapport au déficit de 3,2 milliards observé en mars 2004. Cette détérioration est surtout attribuable à des transferts de 7,2 milliards de dollars se rapportant aux ententes fédérales-provinciales sur les soins de santé et sur la péréquation et la formule de financement des territoires (FFT). Les dispositions législatives autorisant ces transferts ont reçu la sanction royale en mars.

### D'avril 2004 à mars 2005

L'excédent budgétaire estimatif pour la période d'avril 2004 à mars 2005 se chiffre à 9,8 milliards de dollars, en hausse de 1,0 milliard par rapport à celui enregistré durant la même période de l'exercice précédent.

Les charges de programmes ont augmenté de 13,7 milliards, ou 9,9 %, entre avril 2004 et mars 2005; cela s'explique surtout par la hausse des paiements de transfert, qui illustre les effets des ententes fédérales-provinciales-territoriales sur les soins de santé et sur la péréquation et la FFT, qui ont été comptabilisés en mars 2005. Les frais de la dette publique ont baissé de 1,5 milliard, ou 4,2 %, ce qui est attribuable à la baisse simultanée de l'encours de la dette portant intérêt et du taux d'intérêt effectif moyen applicable à cet encours.

D'une année sur l'autre, les revenus budgétaires ont augmenté de 13,2 milliards de dollars, ou 7,2 %, au cours de la période d'avril 2004 à mars 2005 par rapport à la même période en 2003-2004. Cette hausse est surtout attribuable à une forte augmentation des rentrées d'impôt des sociétés. L'augmentation sous-jacente des revenus tirés de l'impôt des sociétés représente près du double de la croissance estimée des bénéfices des sociétés pour 2004. Les rentrées d'impôt des sociétés pour la période d'avril 2004 à mars 2005 dépassent d'environ 2 milliards le montant prévu au moment du budget.

**Il ne s'agit pas là des résultats définitifs pour l'ensemble de l'exercice. Les résultats mensuels d'avril 2004 à mars 2005 ne tiennent pas compte des effets des nouvelles initiatives proposées dans le budget de 2005, qui totalisent 2,5 milliards de dollars. Ils n'indiquent pas non plus les habituels rajustements comptables de fin d'exercice, qui incluent les coûts des éléments de passif engagés pendant l'exercice pour lesquels aucun paiement n'a été effectué en 2004-2005, ainsi que les rajustements finaux de l'impôt couru. Par conséquent, il est trop tôt pour déterminer si l'excédent budgétaire pour l'exercice 2004-2005 sera plus élevé que le montant de 3 milliards prévu dans le budget de 2005.**

### Mars 2005 : résultats budgétaires

Un déficit budgétaire de 9,5 milliards de dollars a été constaté en mars 2005, en hausse par rapport au déficit de 3,2 milliards observé en mars 2004.

Les revenus budgétaires ont totalisé 17,8 milliards de dollars, en hausse de 1,1 milliard, ou 6,5 %, par rapport à mars 2004. Cette hausse s'explique par l'augmentation des rentrées au titre de l'impôt sur le revenu des particuliers et de l'impôt des sociétés, qui a été légèrement compensée par la baisse des rentrées de TPS et des autres revenus.

- D'une année sur l'autre, les revenus tirés de l'impôt sur le revenu des particuliers ont augmenté de 1,2 milliard de dollars, ou 16,9 %, à cause de facteurs liés à la périodicité du traitement des retenues à la source.

- Les revenus au titre de l'impôt des sociétés ont augmenté de 0,8 milliard de dollars, ou 24,1 %, d'une année sur l'autre. Cette hausse est imputable aux paiements finaux d'impôt pour l'exercice 2004 effectués par les sociétés du secteur manufacturier en mars 2005, qui ont augmenté de 1,0 milliard par rapport à l'an dernier. Les acomptes mensuels des entreprises de ce secteur ont diminué pour les 11 premiers mois de 2004-2005, de sorte qu'à eux seuls, les paiements de règlement de mars expliquent entièrement l'augmentation des revenus provenant de ce secteur pour tout l'exercice 2004-2005.



- Les revenus au titre des taxes et des droits d'accise en mars 2005 ont diminué de 0,3 milliard de dollars par rapport à mars 2004, presque entièrement à cause du recul des rentrées de TPS. Comme on l'indiquait dans des numéros antérieurs de *La revue financière*, on prévoyait une diminution des rentrées de TPS, car les rentrées nettes au deuxième semestre avaient très fortement progressé par rapport au montant des produits et services taxables, en raison de la faible augmentation des remboursements de TPS. Les revenus tirés des droits de douane à l'importation ont augmenté de 20 millions de dollars par rapport au même mois l'an dernier, tandis que ceux provenant des taxes et droits d'accise ainsi que du droit pour la sécurité des passagers du transport aérien ont diminué de 15 millions.
- Les revenus provenant des cotisations d'assurance-emploi ont augmenté de 3,2 %, en raison de la progression de l'emploi ainsi que de la hausse des salaires, qui ont plus que compensé la baisse des taux de cotisation.
- Les autres revenus, qui proviennent des sociétés d'État, de la vente de produits et services ainsi que des opérations de change, ont chuté de 72,4 %. Cela s'explique surtout par les pertes constatées lors de la réévaluation, en fin d'exercice, du portefeuille d'actifs libellés en dollars américains détenu par le gouvernement, en raison de l'appréciation du dollar canadien.

Les charges de programmes en mars 2005 se sont chiffrées à 24,5 milliards de dollars, en hausse de 7,6 milliards, ou 44,6 %, par rapport à mars 2004, surtout en raison de l'augmentation des paiements de transfert.

Au total, les paiements de transfert ont bondi de 7,5 milliards de dollars, ou 63,5 %, en mars 2005.

- Les transferts aux particuliers, c'est-à-dire les prestations aux aînés et les prestations d'assurance-emploi, ont augmenté de 1,0 % d'une année sur l'autre. Les prestations aux aînés ont augmenté de 88 millions de dollars en raison de la hausse simultanée du montant moyen des prestations et du nombre de personnes admissibles. Pour leur part, les prestations d'assurance-emploi ont diminué de 50 millions, du fait de la baisse des prestations régulières.
- Les transferts aux autres administrations englobent les transferts fédéraux destinés à la santé et aux autres programmes sociaux (Transfert canadien en matière de santé, Transfert canadien en matière de programmes sociaux et Transfert visant la réforme des soins de santé), les transferts fiscaux ainsi que les paiements de remplacement pour les programmes permanents. Ils ont augmenté de 6,3 milliards de

dollars, en raison des obligations liées aux nouvelles initiatives découlant des accords de 2004 des premiers ministres sur les soins de santé et sur la péréquation et la FFT.

- Les subventions et autres transferts ont augmenté de 1,2 milliard de dollars en raison de la hausse du soutien aux agriculteurs et de l'aide étrangère. Cette composante varie beaucoup d'un mois à l'autre, surtout en raison de la périodicité des versements.

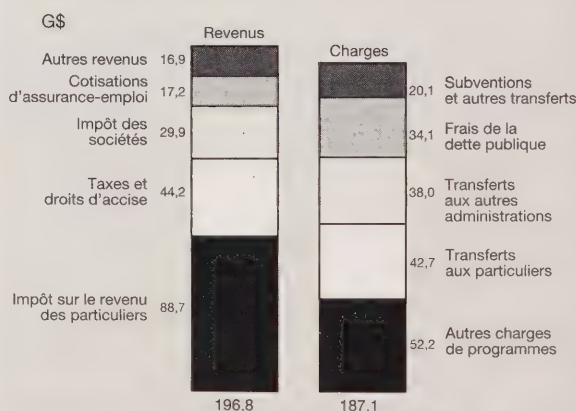
Les autres charges de programmes se composent des transferts aux sociétés d'État et des charges de fonctionnement des ministères et organismes, dont la défense. D'une année sur l'autre, ces charges ont augmenté de 1,4 %, la hausse des transferts aux sociétés d'État et des charges des ministères et organismes étant largement compensée par une baisse de celles liées à la défense. En effet, ces dernières ont diminué de 336 millions de dollars, ou 17,5 %, tandis que celles des autres ministères et organismes augmentaient de 325 millions, ou 11,4 %, et que les transferts aux sociétés d'État montaient de 82 millions, ou 21,0 %. Cette composante varie elle aussi beaucoup d'un mois à l'autre, en raison de la périodicité des paiements et de la mise en œuvre de mesures prévues dans les budgets précédents.

Les frais de la dette publique ont diminué de 7,2 %, ce qui est attribuable à la baisse simultanée de l'encours de la dette portant intérêt et du taux d'intérêt effectif moyen applicable à cet encours.

## D'avril 2004 à mars 2005 : résultats budgétaires

Pour la période d'avril 2004 à mars 2005, on a dégagé un excédent budgétaire de 9,8 milliards de dollars, en hausse de 1,0 milliard par rapport à celui de 8,8 milliards enregistré durant la même période en 2003-2004.

### Revenus et charges (d'avril 2004 à mars 2005)





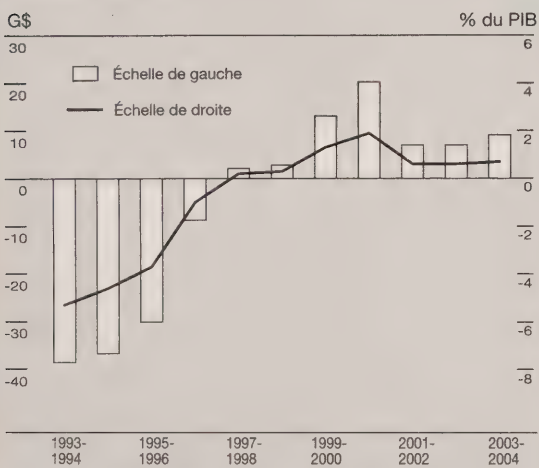
Les revenus budgétaires ont augmenté de 13,2 milliards de dollars, ou 7,2 %, et totalisent 196,8 milliards. Cette hausse découle de la forte progression des revenus provenant de l'impôt des sociétés et de la TPS, ainsi que du produit net de 2,6 milliards de la vente du reste des actions de Petro-Canada que détenait encore le gouvernement.

- Les revenus au titre de l'impôt sur le revenu des particuliers ont augmenté de 5,5 milliards de dollars, ou 6,6 %, en raison de la progression de l'emploi et des salaires pendant l'exercice.
- Les revenus tirés de l'impôt des sociétés ont connu une hausse de 2,9 milliards de dollars, ou 10,6 %. Deux facteurs ont eu pour effet de limiter la hausse de ces revenus d'une année sur l'autre : la prise en compte, dans les résultats de 2003-2004, des gains exceptionnels enregistrés par le secteur financier à la suite de la réévaluation de passifs libellés en dollars américains en 2003, ainsi que la baisse de 2 points de pourcentage du taux général de l'impôt des sociétés en 2004. Si l'on fait abstraction de ces deux facteurs, les revenus tirés de l'impôt des sociétés ont augmenté de quelque 29 % depuis le début de l'exercice, ce qui est supérieur à la croissance estimée de 17,7 % des bénéfices des sociétés en 2004. Le budget de 2005 prévoyait une augmentation sous-jacente des rentrées nettes d'impôt des sociétés de plus de 20 %, soit un peu plus que la croissance estimée des bénéfices des sociétés, qui était de 17,7 %.
- Les revenus au titre des taxes et des droits d'accise ont augmenté de 3,1 milliards de dollars, ou 7,6 %. La quasi-totalité de cette hausse est attribuable à la croissance des revenus tirés de la TPS, qui ont augmenté de 3,1 milliards, ou 10,9 %, par rapport à l'exercice précédent. La forte poussée des rentrées de TPS d'avril à mars met en évidence la faiblesse

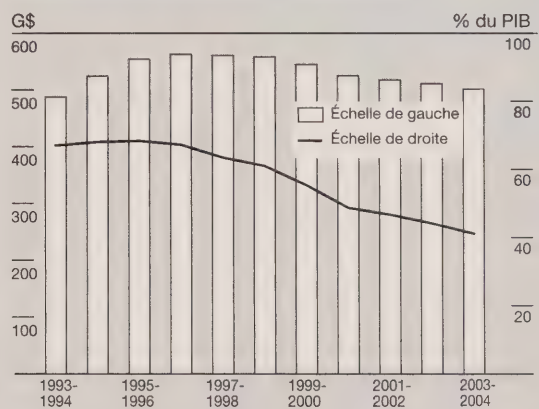
persistante des remboursements de TPS (qui n'ont augmenté que de 3,0 %) par rapport aux rentrées brutes (qui se sont accrues de 6,8 %). En bout de ligne, la hausse des remboursements devrait concorder étroitement avec celle des rentrées brutes. Les rentrées nettes ont diminué en mars 2005, de sorte que les revenus nets tirés de la TPS sont plus conformes à la hausse de l'assiette fiscale correspondante. Les remboursements devraient continuer d'augmenter par rapport aux rentrées brutes par le biais des rajustements en fin d'année selon la comptabilité d'exercice. Les droits de douane à l'importation ont augmenté de 0,1 milliard au cours de la période, tandis que les revenus tirés des taxes et droits d'accise ainsi que du droit pour la sécurité des passagers du transport aérien ont diminué au total de 0,1 milliard.

- Les revenus provenant des cotisations d'assurance-emploi ont diminué de 0,3 milliard de dollars, ou 1,4 %, en raison de la réduction des taux de cotisation (le taux de cotisation applicable aux employés, qui était de 2,10 \$ par tranche de 100 \$ de gains assurables en 2003, a été ramené à 1,98 \$ en 2004 et à 1,95 \$ en 2005), qui a plus que compensé les effets de la progression de l'emploi et des salaires.
- Les autres revenus ont augmenté de 1,3 milliard de dollars, ou 10,8 %, par suite de la vente du reste des actions de Petro-Canada que détenait encore le gouvernement. Les autres composantes de cette catégorie (notamment les gains nets du Compte du fonds des changes ainsi que les intérêts et les gains nets des sociétés d'État entreprises) ont diminué par rapport à l'exercice précédent, ce qui s'explique par l'appréciation du dollar canadien et par la baisse des taux d'intérêt.

## Solde budgétaire



## Dettes fédérales (déficit accumulé)





D'une année sur l'autre, les charges de programmes engagées d'avril 2004 à mars 2005 ont augmenté de 9,9 % pour atteindre 153,0 milliards de dollars. Cela s'explique surtout par la hausse des transferts en vertu des accords sur les soins de santé et sur la péréquation et la FFT conclus par les premiers ministres en 2004. Les frais de la dette publique ont été inférieurs de 1,5 milliard à ceux de la période correspondante de 2003-2004, en raison de la diminution simultanée de l'encours de la dette portant intérêt et du taux d'intérêt effectif moyen applicable à cet encours.

Les paiements de transfert, qui représentent les deux tiers environ des charges de programmes, ont augmenté de 10,6 milliards de dollars, ou 11,7 %.

- Les transferts aux particuliers ont progressé de 0,6 milliard de dollars, ou 1,5 %. Les prestations aux aînés ont augmenté de 3,7 %, tandis que les prestations d'assurance-emploi ont fléchi de 2,3 %. La baisse du montant total des prestations d'assurance-emploi versées est attribuable à la diminution des prestations régulières, qui correspond à l'amélioration du marché de l'emploi.
- Les transferts aux autres administrations ont connu une hausse de 8,2 milliards de dollars, ou 27,6 %, en raison de la majoration des transferts pour la santé et les autres programmes sociaux, aux termes des accords conclus par les premiers ministres en 2004 sur les soins de santé et sur la péréquation et la FFT.
- Les subventions et autres transferts ont progressé de 1,7 milliard de dollars, ou 9,2 %, surtout à cause de l'effet de mesures annoncées dans le cadre de budgets antérieurs.

Les autres charges de programmes ont augmenté de 3,2 milliards de dollars, ou 6,5 %. La baisse des charges liées aux sociétés d'État a été plus que compensée par la hausse des charges liées à la défense et aux autres ministères et organismes. Les charges de la défense ont augmenté de 0,7 milliard, ou 5,6 %; pour leur part, les charges des autres ministères et organismes ont progressé de 2,5 milliards, ou 8,1 %.

## Ressources financières de 8,5 milliards de dollars d'avril 2004 à mars 2005

Le solde budgétaire est présenté selon la comptabilité d'exercice intégrale, les passifs et les actifs du gouvernement étant constatés au moment où ils sont engagés ou acquis, peu importe le moment où surviennent les sorties ou rentrées de fonds correspondantes. En revanche, les ressources ou besoins financiers représentent l'écart entre les encaissements et les décaissements de l'État.

Cette mesure tient compte non seulement des variations du solde budgétaire, mais aussi des ressources ou besoins en espèces découlant des placements de l'État (par voie d'acquisitions d'immobilisations, de prêts, de placements et d'avances), des comptes de pension et autres comptes, ainsi que ses autres activités, en particulier le paiement des comptes créditeurs, la perception des comptes débiteurs, les opérations de change et l'amortissement des immobilisations corporelles. La différence entre le solde budgétaire et les ressources ou besoins financiers est constatée dans les opérations non budgétaires.

Les opérations non budgétaires se sont soldées par des besoins nets de 5,1 milliards de dollars d'avril 2004 à mars 2005, en hausse de 1,7 milliard par rapport aux besoins de 3,4 milliards pour la même période en 2003-2004. Cette augmentation est surtout attribuable au transfert des actifs du Régime de pensions du Canada détenus par le gouvernement à l'Office d'investissement du régime de pensions du Canada.

Étant donné un excédent budgétaire de 9,8 milliards de dollars et des besoins nets de 5,1 milliards au titre des opérations non budgétaires, des ressources financières de 4,7 milliards ont été dégagées pour la période d'avril 2004 à mars 2005, comparativement à des ressources de 5,4 milliards durant la même période de l'exercice précédent.

## Activités nettes de financement en baisse de 4,8 milliards de dollars

Le gouvernement a utilisé ces ressources financières de 4,7 milliards de dollars ainsi que la baisse de 0,1 milliard de ses soldes de trésorerie pour réduire de 4,8 milliards sa dette contractée sur les marchés, principalement en réduisant ses portefeuilles d'emprunts en devises. Le niveau mensuel des soldes de trésorerie varie en fonction de différents facteurs, notamment l'échéance périodique d'émissions de titres d'emprunt de grande valeur, qui peuvent fluctuer beaucoup d'un mois à l'autre. Les soldes de trésorerie à la fin de mars 2005 s'élevaient à 17,1 milliards de dollars.

Tableau 1

## État sommaire des opérations

	Mars		D'avril à mars	
	2004	2005	2003-2004	2004-2005
	(M\$)			
<b>Opérations budgétaires</b>				
Revenus	16 693	17 777	183 645	196 842
Charges				
Charges de programmes	-16 976	-24 545	-139 214	-152 954
Frais de la dette publique	-2 896	-2 687	-35 633	-34 122
Solde budgétaire (déficit ou excédent)	-3 179	-9 455	8 798	9 766
<b>Opérations non budgétaires</b>	6 269	5 657	-3 440	-5 105
<b>Ressources ou besoins financiers</b>	3 090	-3 798	5 358	4 661
<b>Variation nette dans les activités de financement</b>	7 978	13 647	-2 807	-4 790
<b>Variation nette dans l'encaisse</b>	11 068	9 849	2 551	-129
<b>Encaisse à la fin de la période</b>			17 250	17 122

Nota – Les chiffres positifs indiquent des ressources nettes et les chiffres négatifs, des besoins nets.

Tableau 2

## Revenus budgétaires

	Mars			D'avril à mars		
	2004	2005	Variation	2003-2004	2004-2005	Variation
	(M\$)		(%)	(M\$)		(%)
<b>Revenus fiscaux</b>						
Impôts sur le revenu						
Impôt sur le revenu des particuliers	7 026	8 213	16,9	83 187	88 686	6,6
Impôt sur le revenu des sociétés	3 415	4 238	24,1	27 000	29 872	10,6
Autres impôts sur le revenu	195	316	62,1	2 912	3 567	22,5
Total des impôts sur le revenu	10 636	12 767	20,0	113 099	122 125	8,0
Taxes et droits d'accise						
Taxe sur les produits et services	2 278	1 939	-14,9	28 104	31 161	10,9
Droits de douane à l'importation	229	249	8,7	2 892	3 034	4,9
Taxes de vente et d'accise	731	728	-0,4	9 660	9 606	-0,6
Droit pour la sécurité des passagers du transport aérien	45	33	-26,7	414	389	-6,0
Total des taxes et droits d'accise	3 283	2 949	-10,2	41 070	44 190	7,6
Total des revenus fiscaux	13 919	15 716	12,9	154 169	166 315	7,9
<b>Cotisations d'assurance-emploi</b>	1 713	1 768	3,2	17 419	17 169	-1,4
<b>Autres revenus</b>	1 061	293	-72,4	12 057	13 358	10,8
<b>Total des revenus budgétaires</b>	16 693	17 777	6,5	183 645	196 842	7,2

# La revue financière

Tableau 3

## Charges budgétaires

	Mars		Variation	D'avril à mars		Variation
	2004	2005		2003-2004	2004-2005	
	(M\$)	(M\$)	(%)	(M\$)	(M\$)	(%)
<b>Paielements de transfert</b>						
Particuliers						
Prestations aux aînés	2 277	2 365	3,9	26 939	27 926	3,7
Prestations d'assurance-emploi	1 378	1 328	-3,6	15 076	14 734	-2,3
Total	3 655	3 693	1,0	42 015	42 660	1,5
Autres administrations						
Aide au titre de la santé et d'autres programmes sociaux						
Transfert canadien en matière de santé		6 804			18 400	
Transfert canadien en matière de programmes sociaux		727			7 900	
Transfert visant la réforme des soins de santé	83	125	50,6	1 000	1 500	50,0
Transfert canadien en matière de santé et de programmes sociaux	3 608	31		21 300	31	
Transferts fiscaux	550	2 882	424,0	10 081	12 902	28,0
Paielements de remplacement pour les programmes permanents	-285	-333	16,8	-2 615	-2 746	5,0
Total	3 956	10 236	158,7	29 766	37 987	27,6
Subventions et autres transferts						
Agriculture	1 235	1 748	41,5	2 358	2 574	9,2
Affaires étrangères	674	1 182	75,4	2 519	3 391	34,6
Santé	508	246	-51,6	2 059	1 864	-9,5
Développement des ressources humaines	169	49	-71,0	1 614	1 203	-25,5
Affaires indiennes et du Nord	481	452	-6,0	4 268	4 354	2,0
Industrie et développement régional	288	207	-28,1	1 809	1 681	-7,1
Autres	846	1 497	77,0	3 818	5 080	33,1
Total	4 201	5 381	28,1	18 445	20 147	9,2
Total des paielements de transfert	11 812	19 310	63,5	90 226	100 794	11,7
<b>Autres charges de programmes</b>						
Sociétés d'État						
Société Radio-Canada	20	0	-100,0	1,074	1,045	-2,7
Société canadienne d'hypothèques et de logement	205	190	-7,3	2,065	2,045	-1,0
Autres	166	283	70,5	2,125	2,113	-0,6
Total	391	473	21,0	5,264	5,203	-1,2
Défense	1 919	1 583	-17,5	12,274	12,962	5,6
Tous les autres ministères et organismes	2 854	3 179	11,4	31,450	33,995	8,1
Total des autres charges de programmes	5 164	5 235	1,4	48 988	52 160	6,5
<b>Total des charges de programmes</b>	16 976	24 545	44,6	139 214	152 954	9,9
<b>Frais de la dette publique</b>	2 896	2 687	-7,2	35 633	34 122	-4,2
<b>Total des charges budgétaires</b>	19 872	27 232	37,0	174 847	187 076	7,0



Tableau 4

## Solde budgétaire et ressources ou besoins financiers

	Mars		D'avril à mars	
	2004	2005	2003-2004	2004-2005
	(M\$)			
<b>Solde budgétaire (déficit ou excédent)</b>	-3 179	-9 455	8 798	9 766
<b>Opérations non budgétaires</b>				
Activités d'investissement en immobilisations	-137	-861	-1 800	-2 263
Autres activités d'investissement	-4	-1 033	-2 483	-3 048
Comptes de pension et autres comptes	970	228	2 224	-3 228
Autres activités				
Créditeurs, débiteurs, charges à payer et provisions	3 352	5 305	-8 618	-3 324
Opérations de change	1 793	1 517	4 219	3 441
Amortissement des immobilisations corporelles	295	501	3 018	3 317
Total des autres activités	5 440	7 323	-1 381	3 434
<b>Total des opérations non budgétaires</b>	6 269	5 657	-3 440	-5 105
<b>Ressources ou besoins financiers nets</b>	3 090	-3 798	5 358	4 661

Tableau 5

## Ressources ou besoins financiers et activités nettes de financement

	Mars		D'avril à mars	
	2004	2005	2003-2004	2004-2005
	(M\$)			
<b>Ressources ou besoins financiers nets</b>	3 090	-3 798	5 358	4 661
Augmentation ou diminution nette dans les activités de financement				
Opérations de la dette non échue				
Emprunts en dollars canadiens				
Obligations négociables	1 921	1 348	-9 307	-12 288
Bons du Trésor	6 700	11 500	8 800	13 800
Obligations d'épargne du Canada	-15	-83	-1 680	-2 244
Autres	-34	-6	57	-35
Total	8 572	12 759	-2 130	-767
Emprunts en devises	-564	822	-597	-4 254
Total	8 008	13 581	-2 727	-5 021
Obligations découlant de contrats de location-acquisition	-30	66	-80	231
<b>Variation nette dans les activités de financement</b>	7 978	13 647	-2 807	-4 790
<b>Variation dans l'encaisse</b>	11 068	9 849	2 551	-129

# La revue financière

Tableau 6

## État condensé de l'actif et du passif

	31 mars 2004	31 mars 2005	Variation
		(M\$)	
<b>Passif</b>			
Créditeurs, charges à payer et provisions	79 964	75 909	-4 055
Dette portant intérêt			
Dette non échue			
Payable en dollars canadiens			
Obligations négociables	278 780	266 492	-12 288
Bons du Trésor	113 378	127 178	13 800
Obligations d'épargne du Canada	21 330	19 086	-2 244
Autres	3 427	3 392	-35
Total partiel	416 915	416 148	-767
Payable en devises	20 542	16 288	-4 254
Obligations découlant de contrats de location-acquisition	2 774	3 005	231
Total de la dette non échue	440 231	435 441	-4 790
Comptes de pension et autres comptes			
Régimes de retraite du secteur public	127 560	129 430	1 870
Autres avantages futurs des employés et anciens combattants	39 367	39 675	308
Régime de pensions du Canada (net des titres détenus)	7 483	2 763	-4 720
Autres comptes de pension et autres comptes	6 488	5 802	-686
Total des comptes de pension et autres comptes	180 898	177 670	-3 228
Total de la dette portant intérêt	621 129	613 111	-8 018
<b>Total du passif</b>	<b>701 093</b>	<b>689 020</b>	<b>-12 073</b>
<b>Actifs financiers</b>			
Encaisse et débiteurs	70 922	70 062	-860
Comptes d'opérations de change	44 312	40 871	-3 441
Prêts, placements et avances (nets des provisions)	29 548	32 596	3 048
Total des actifs financiers	144 782	143 529	-1 253
<b>Dette nette</b>	<b>556 311</b>	<b>545 491</b>	<b>-10 820</b>
<b>Actifs non financiers</b>	<b>54 817</b>	<b>53 763</b>	<b>-1 054</b>
<b>Dette fédérale (déficit accumulé)</b>	<b>501 494</b>	<b>491 728</b>	<b>-9 766</b>

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*This publication is also available in English.*

Mai 2005

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### April 2005: budgetary surplus of \$2.2 billion

There was a budgetary surplus of \$2.2 billion in April 2005, up from a surplus of \$0.8 billion recorded in April 2004. The year-over-year improvement in the budgetary balance is attributable to higher budgetary revenues, up \$2.3 billion, or 14.9 per cent, primarily reflecting strong advances in personal and corporate income tax revenues. Public debt charges were marginally lower while program expenses increased by \$1.0 billion, or 8.6 per cent, primarily reflecting the impact of previous budget measures.

### May 2005: budgetary surplus of \$0.9 billion

There was a budgetary surplus of \$0.9 billion in May 2005, down from the \$1.0-billion surplus recorded in May 2004. On a year-over-year basis, budgetary revenues were up \$1.1 billion, while program expenses were up \$1.3 billion. Public debt charges declined \$0.1 billion to \$2.9 billion.

### April and May 2005: budgetary surplus of \$3.1 billion

For the first two months of the 2005–06 fiscal year (April and May), the budgetary surplus is estimated at \$3.1 billion, up \$1.3 billion from the surplus of \$1.8 billion recorded in the same period of 2004–05. Budgetary revenues were up \$3.4 billion, or 11.2 per cent, largely due to the strength of personal and corporate income tax receipts. Program expenses were up \$2.3 billion, or 10.0 per cent, primarily reflecting the impact of previous budget measures affecting transfers to the provinces and territories. Public debt charges were down \$0.2 billion to \$5.7 billion.

### April and May 2005 budgetary results

Through the first two months of the 2005–06 fiscal year, there was a budgetary surplus of \$3.1 billion, up \$1.3 billion from the \$1.8-billion surplus reported during the same period of 2004–05.

On a year-over-year basis, budgetary revenues increased \$3.4 billion, or 11.2 per cent, to total \$33.8 billion. This increase primarily reflects strong gains in personal and corporate income tax revenues.

- Personal income tax revenues increased \$1.1 billion, or 7.7 per cent, through April and May, reflecting strong source deductions, consistent with the increase in employment and wages and salaries over this period.

- Corporate income tax revenues were up \$1.3 billion. The monthly results through May in large part reflect remittance procedures, under which corporations are required to remit monthly instalments through the year based on their previous year's actual tax liabilities or their current year's estimated liabilities. Any underpayment of a corporation's current-year tax liability is made within 60 days of the close of its taxation year by means of a year-end settlement payment. Given that settlement payments were up during the last three months of 2004–05 (the year-end settlement period for those corporations with a December 31, 2004, taxation year), monthly corporate remittances during the April to December period of 2004–05





# The Fiscal Monitor

were understated. As a result, the growth rate of corporate remittances in April and May 2005, which now reflect the higher 2004 tax year liability, is higher than it would have been if monthly remittances last year had been consistent with the tax liability for the year as a whole. Thus the increase in corporate tax receipts in April and May over the same period last year overstates the underlying growth in corporate income tax revenues.

- Excise taxes and duties increased \$0.9 billion, or 12.6 per cent. Goods and services tax revenues rose \$0.7 billion, or 13.5 per cent. Customs import duties and sales and excise taxes were each up \$0.1 billion, while the Air Travellers Security Charge fell \$3 million.
- Employment insurance (EI) premiums rose 2.8 per cent, as gains in employment and wages and salaries more than offset the impact of the decline in the premium rate from \$1.98 per \$100 of insurable earnings in 2004 (employee rate) to \$1.95 in 2005.
- Other revenues increased \$0.1 billion, or 4.6 per cent. This category tends to be volatile on a monthly basis.

On a year-over-year basis, program expenses in April and May were up \$2.3 billion, or 10.0 per cent, to \$25.0 billion. This increase is mainly due to increased transfers under the 2004 First Ministers' agreements on health care and equalization/Territorial Formula Financing (TFF).

Transfer payments increased by \$2.0 billion, or 13.6 per cent.

- Transfers to persons advanced by \$155 million, or 2.2 per cent. Elderly benefits were up 5.1 per cent while EI benefits were down 2.9 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with the improvement in the labour market.

- Transfers to other levels of government were up \$1.1 billion, or 22.3 per cent, reflecting higher transfers in support of health and other social programs and higher fiscal transfers, resulting from the 2004 First Ministers' agreements on health care and equalization/TFF.
- Subsidies and other transfers increased by \$719 million, or 28.3 per cent, primarily reflecting the timing of payments and the impact of previous budget measures. This component is volatile on a monthly basis.

Other program expenses increased by \$261 million, or 3.3 per cent, as lower expenses related to Crown corporations and defence were more than offset by higher expenses related to other departments and agencies. Defence expenses were down \$85 million, or 4.9 per cent, while program expenses for all other departments and agencies were up \$351 million, or 6.8 per cent. Transfers to Crown corporations fell slightly by \$5 million, or 0.5 per cent.

Public debt charges were \$153 million lower, primarily reflecting the impact of a decline in the stock of interest-bearing debt.

## Revenues and expenses (April-May 2005)

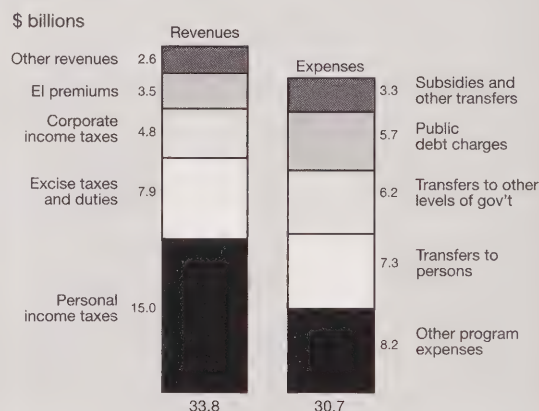


Table 3

## Budgetary expenses

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
(\$ millions)						
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,281	2,402	2,286	2,396	4,567	4,798
Employment insurance benefits	1,390	1,160	1,213	1,366	2,602	2,526
Total	3,671	3,562	3,499	3,762	7,169	7,324
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,584	1,054	1,583	2,108	3,167
Canada Social Transfer	652	686	652	685	1,304	1,371
Health Reform Transfer	125	0	125	0	250	0
Canada Health and Social Transfer	8	0	8	0	16	0
Fiscal transfers	815	949	1,087	1,228	1,902	2,178
Alternative Payments for Standing Programs	-253	-254	-253	-254	-506	-508
Total	2,401	2,965	2,673	3,242	5,074	6,208
Subsidies and other transfers						
Agriculture	12	70	47	275	59	345
Foreign Affairs	171	267	164	126	335	393
Health	128	103	159	171	286	274
Human Resources Development	148	115	155	100	303	215
Indian and Northern Development	630	674	299	296	929	970
Industry and Regional Development	116	119	108	88	225	207
Other	216	490	191	369	407	859
Total	1,421	1,838	1,123	1,425	2,544	3,263
Total transfer payments	7,493	8,365	7,295	8,429	14,787	16,795
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	212	205	87	75	299	280
Canada Mortgage and Housing Corporation	144	149	216	219	360	368
Other	285	214	108	185	392	398
Total	641	568	411	479	1,051	1,046
Defence	709	809	1,031	847	1,741	1,656
All other departments and agencies	2,664	2,755	2,516	2,777	5,181	5,532
Total other program expenses	4,014	4,132	3,958	4,103	7,973	8,234
<b>Total program expenses</b>	11,507	12,497	11,253	12,532	22,760	25,029
<b>Public debt charges</b>	2,856	2,778	2,968	2,893	5,824	5,671
<b>Total budgetary expenses</b>	14,363	15,275	14,221	15,425	28,584	30,700

Note: Totals may not sum due to rounding.

Table 1

## Summary statement of transactions

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
(\$ millions)						
<b>Budgetary transactions</b>						
Revenues	15,178	17,447	15,211	16,359	30,388	33,806
Expenses						
Program expenses	-11,507	-12,497	-11,253	-12,532	-22,760	-25,029
Public debt charges	-2,856	-2,778	-2,968	-2,893	-5,824	-5,671
Budgetary balance (deficit/surplus)	815	2,172	990	934	1,804	3,106
<b>Non-budgetary transactions</b>	-4,882	-7,264	385	2,312	-4,497	-4,952
<b>Financial source/requirement</b>	-4,067	-5,092	1,375	3,246	-2,693	-1,846
<b>Net change in financing activities</b>	-7,914	-8,099	9,028	3,703	1,114	-4,396
<b>Net change in cash balances</b>	-11,981	-13,191	10,403	6,949	-1,579	-6,242
<b>Cash balance at end of period</b>					15,747	10,878

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
(\$ millions)						
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,992	7,986	6,925	7,007	13,916	14,993
Corporate income tax	1,481	2,404	2,095	2,440	3,577	4,844
Other income tax revenue	247	234	321	340	568	574
Total income tax	8,720	10,624	9,341	9,787	18,061	20,411
Excise taxes and duties						
Goods and services tax	2,788	2,919	2,332	2,893	5,120	5,812
Customs import duties	235	242	227	273	462	514
Sales and excise taxes	758	749	652	807	1,410	1,557
Air Travellers Security Charge	38	33	27	29	65	62
Total excise taxes and duties	3,819	3,943	3,238	4,002	7,057	7,945
Total tax revenues	12,539	14,567	12,579	13,789	25,118	28,356
<b>Employment insurance premiums</b>	1,697	1,754	1,671	1,707	3,368	3,461
<b>Other revenues</b>	942	1,126	961	863	1,902	1,989
<b>Total budgetary revenues</b>	15,178	17,447	15,211	16,359	30,388	33,806

Note: Totals may not sum due to rounding.



## Financial requirement of \$1.8 billion for April and May 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

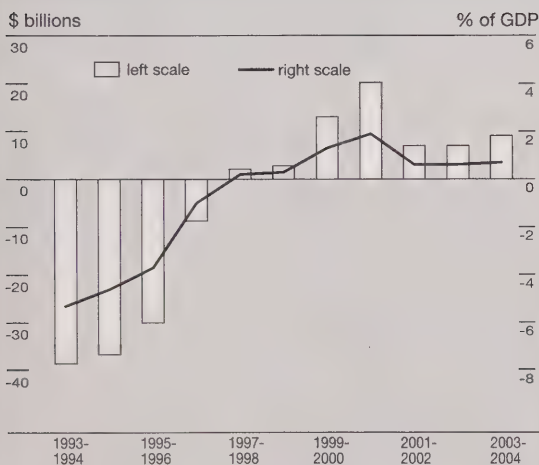
Non-budgetary transactions resulted in a net requirement of \$5.0 billion in April and May 2005, an increase of \$0.5 billion from the requirement of \$4.5 billion in the same period of 2004–05. Traditionally, there are large requirements in the first half of the fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

With a budgetary surplus of \$3.1 billion and a net requirement of \$5.0 billion from non-budgetary transactions, there was a financial requirement of \$1.8 billion in the first two months of 2005–06, compared to a requirement of \$2.7 billion in the same period of 2004–05.

## Net financing activities down \$4.4 billion

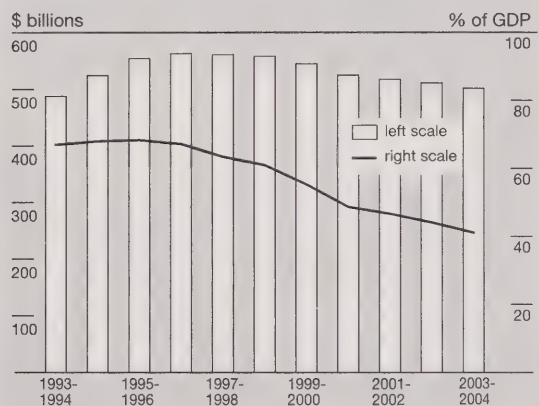
The Government reduced its net financing activities by \$4.4 billion in April and May 2005 through a reduction of its cash balances. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at \$10.9 billion.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
<b>Budgetary balance (deficit/surplus)</b>	815	2,172	990	934	1,804	3,106
<b>Non-budgetary transactions</b>						
Capital investing activities	144	108	-359	8	-215	116
Other investing activities	177	-463	-65	-15	112	-479
Pension and other accounts	-550	-568	884	-253	334	-821
Other activities						
Accounts payable, receivables, accruals and allowances	-5,537	-7,476	782	2,435	-4,755	-5,040
Foreign exchange activities	611	878	-1,106	-105	-495	773
Amortization of tangible capital assets	273	257	249	242	522	499
Total other activities	-4,653	-6,341	-75	2,572	-4,728	-3,768
<b>Total non-budgetary transactions</b>	-4,882	-7,264	385	2,312	-4,497	-4,952
<b>Net financial source/requirement</b>	-4,067	-5,092	1,375	3,246	-2,693	-1,846

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
<b>Net financial source/requirement</b>	-4,067	-5,092	1,375	3,246	-2,693	-1,846
Net increase (+)/decrease (-) in financing activities						
Unmatured debt transactions						
Canadian currency borrowings						
Marketable bonds	-2,818	-1,109	4,974	2,776	2,156	1,667
Treasury bills	-3,800	-5,700	3,800	1,200	0	-4,500
Canada Savings Bonds	-9	-61	-38	-78	-47	-139
Other	-25	0	17	0	-8	0
Total	-6,652	-6,870	8,753	3,898	2,101	-2,972
Foreign currency borrowings	-1,249	-1,229	275	-195	-974	-1,424
Total	-7,901	-8,099	9,028	3,703	1,127	-4,396
Obligations related to capital leases	-13	0	0	0	-13	0
<b>Net change in financing activities</b>	-7,914	-8,099	9,028	3,703	1,114	-4,396
<b>Change in cash balance</b>	-11,981	-13,191	10,403	6,949	-1,579	-6,242

Note: Totals may not sum due to rounding.

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August 2005

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### June 2005: budgetary surplus of \$1.7 billion

There was a budgetary surplus of \$1.7 billion in June 2005, \$0.6 billion higher than the surplus of \$1.1 billion reported in June 2004. This year-over-year improvement is attributable to higher revenues, up \$1.9 billion, or 12.7 per cent, reflecting both increases in the applicable tax bases and timing factors, which will likely unwind over the course of the fiscal year. These timing factors relate to differences in the timing of personal income tax receipts between the 2004–05 and 2005–06 fiscal years and unusually low corporate income tax receipts in early 2004–05. Dampening the impact of this increase on the budgetary balance were higher program expenses, up \$1.3 billion, or 11.5 per cent, primarily reflecting higher transfers to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges increased marginally.

### April to June 2005: budgetary surplus of \$4.8 billion

For the first three months of the 2005–06 fiscal year (April to June), the budgetary surplus is estimated at \$4.8 billion, up \$1.9 billion from the surplus of \$2.9 billion reported in the same period last year. Budgetary revenues were up \$5.4 billion, or 11.8 per cent, with gains reported in all major components. As discussed above, some of this increase is attributable to timing factors, which should unwind over the course of the year. Program expenses were up \$3.6 billion, or 10.6 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were marginally lower.

### June 2005: budgetary results

The June 2005 budgetary surplus of \$1.7 billion was \$0.6 billion higher than that reported in June 2004.

On a year-over-year basis, budgetary revenues, at \$17.1 billion, were up \$1.9 billion, or 12.7 per cent. This increase primarily reflects strong year-over-year gains in personal and corporate income tax revenues, attributable to both strong growth in the applicable tax bases and timing factors, which should unwind over the course of the fiscal year.

- Personal income tax revenues were up \$0.8 billion, or 12.0 per cent, primarily due to strong gains in source deductions. This is substantially stronger than the estimated gain in wages and salaries of between 2½ and 3 per cent, which indicates that some of the year-over-year increase in personal income taxes likely reflects the timing of receipts between the 2004–05 and 2005–06 fiscal years. This should be corrected over the next couple of months.





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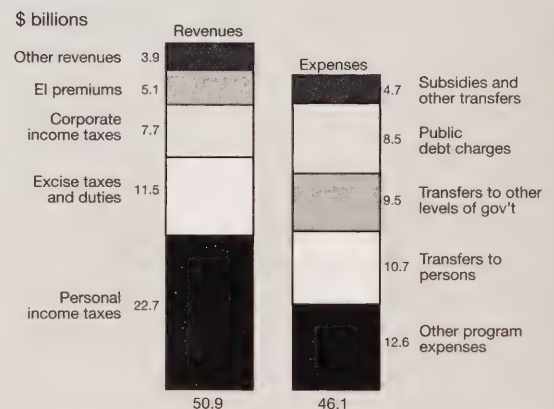
- Corporate income tax revenues increased by \$0.7 billion, or 33.5 per cent, more than double the increase in corporate profits. This difference can be explained by the remittance procedures under which corporations are required to remit monthly instalments. Corporations make monthly instalments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004–05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004–05. With monthly instalments now based on their 2004 tax liabilities, the year-over-year growth overstates the underlying growth in corporate income tax revenues. This will be corrected when the settlement payments are received at the end of the fiscal year.
- Excise taxes and duties increased \$246 million, or 7.5 per cent. Goods and services tax (GST) revenues were up by \$218 million, or 10.1 per cent, reflecting strong growth in GST on imports. Customs import duties were up strongly, while sales and excise taxes were lower. Revenues from the Air Travellers Security Charge were lower, reflecting the reductions announced in the 2005 budget.
- Employment insurance (EI) premiums were up slightly, as the reduction in premium rates (the employee rate for 2005 is \$1.95 per \$100 of insurable earnings compared to \$1.98 in 2004) was more than offset by the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up marginally.

On a year-over-year basis, program expenses in June 2005 were \$12.5 billion, up \$1.3 billion or 11.5 per cent from June 2004, primarily due to higher transfer payments resulting from the 2004 First Ministers' agreements on health care and equalization/TFF.

Transfer payments were up \$1.0 billion, or 13.2 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$99 million, or 3.0 per cent, on a year-over-year basis. Elderly benefits increased 5.1 per cent due to both higher average benefits, which have risen because of higher inflation in early 2005, and an increase in the number of individuals eligible for benefits. EI benefit payments declined 1.8 per cent primarily due to a decline in regular benefits, reflecting the improvement in the labour market situation.
- Major transfers to other levels of government, consisting of the federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.8 billion, or 31.7 per cent. The increase in federal transfers in support of health and other social programs

**Revenues and expenses**  
(April-June 2005)



reflects increased funding under the 2004 agreement on health care. Fiscal transfers consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowances Recovery Program. In aggregate, on a year-over-year basis, these transfers increased by 39.7 per cent, reflecting the new framework for equalization and TFF announced in October 2004.

- Subsidies and other transfers increased by 3.6 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.3 billion, or 8.3 per cent, reflecting increased operating costs and the impact of previous budget measures. This component is quite volatile over the first few months of the fiscal year, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were virtually unchanged, as changes in the composition of interest-bearing debt offset the impact of a decline in the overall stock of that debt.

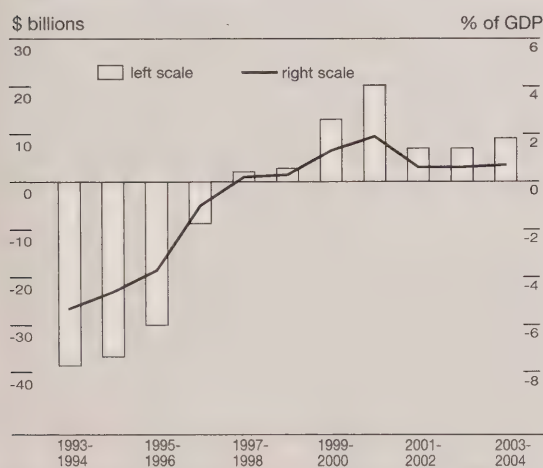
## April to June 2005: budgetary results

For the first three months of the 2005–06 fiscal year, there was a budgetary surplus of \$4.8 billion, up \$1.9 billion from the surplus of \$2.9 billion reported in the same period of 2004–05.

Budgetary revenues, at \$50.9 billion, were up \$5.4 billion, or 11.8 per cent, reflecting both strong gains in the applicable tax bases and timing factors.

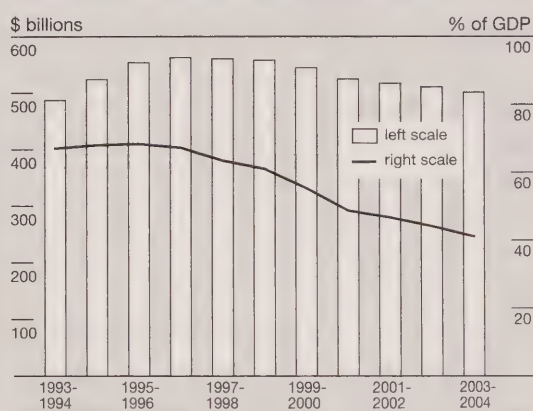
- Personal income tax revenues increased by \$1.9 billion, or 9.2 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting, in part, strong gains in employment over the past 12 months. Wages and salaries are estimated to have advanced between 2½ to 3 per cent over this period. The difference between the growth in revenues and the base primarily reflects the timing of receipts.
- Corporate income tax revenues were up \$2.0 billion, or 34.7 per cent, more than double the growth in corporate profits.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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As noted above, part of this increase is attributable to remittance procedures, the impact of which will unwind towards the end of the fiscal year.

- Excise taxes and duties increased by \$1.1 billion, or 11.0 per cent. GST revenues increased by \$0.9 billion, or 12.5 per cent, due to higher gross receipts from domestic sales and on imports and a somewhat slower pace of refunds. Sales and excise taxes were up 5.0 per cent, while the Air Travellers Security Charge was down 6.3 per cent.
- EI premiums were up 2.7 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were up 6.1 per cent.

On a year-over-year basis, program expenses in the April to June 2005 period, at \$37.5 billion, were up \$3.6 billion or 10.6 per cent over the same period of 2004–05, with most of the increase attributable to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.1 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$3.0 billion, or 13.4 per cent.

- Transfers to persons advanced by 2.4 per cent. Elderly benefits were up 5.1 per cent, while EI benefits were down 2.6 per cent. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits, such as sickness, maternity and paternal benefits, were higher.
- Transfers to other levels of government were up \$1.9 billion, or 25.5 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 19.6 per cent, reflecting the impact of previous budget measures.

Other program expenses increased by 5.4 per cent, as lower year-over-year Crown corporation expenses were more than offset by increases in departmental operating costs.

The decline in public debt charges is attributable to the decline in the stock of interest-bearing debt.

## **Financial requirement of \$5.4 billion for April to June 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and the financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.2 billion in the April to June period, up marginally from the requirement in the same period of 2004–05.

With a budgetary surplus of \$4.8 billion and a net requirement of \$10.2 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first three months of 2005–06, down \$1.8 billion from the same period last year.



### **Net financing activities down \$8.3 billion**

The Government's market debt was down \$8.3 billion by the end of June 2005, with all components being lower. To finance the financial requirement of \$5.4 billion and the reduction of market debt, the Government reduced its cash balances by \$13.7 billion.

The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June stood at \$3.4 billion.

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Table 1

## Summary statement of transactions

	June		April to June	
	2004	2005	2004-05	2005-06
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	15,144	17,060	45,499	50,880
Expenses				
Program expenses	-11,205	-12,490	-33,932	-37,535
Public debt charges	-2,842	-2,845	-8,666	-8,517
Budgetary balance (deficit/surplus)	1,097	1,725	2,901	4,828
<b>Non-budgetary transactions</b>	-5,587	-5,280	-10,085	-10,235
<b>Financial source/requirement</b>	-4,490	-3,555	-7,184	-5,407
<b>Net change in financing activities</b>	-8,918	-3,881	-7,803	-8,277
<b>Net change in cash balances</b>	-13,408	-7,436	-14,987	-13,684
<b>Cash balance at end of period</b>			2,264	3,441

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	June			April to June		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,894	7,722	12.0	20,810	22,716	9.2
Corporate income tax	2,125	2,836	33.5	5,702	7,680	34.7
Other income tax revenue	267	313	17.2	835	887	6.2
Total income tax	9,286	10,871	17.1	27,347	31,283	14.4
Excise taxes and duties						
Goods and services tax	2,165	2,383	10.1	7,285	8,195	12.5
Customs import duties	216	282	30.6	677	797	17.7
Sales and excise taxes	881	846	-4.0	2,290	2,404	5.0
Air Travellers Security Charge	31	28	-9.7	96	90	-6.3
Total excise taxes and duties	3,293	3,539	7.5	10,348	11,486	11.0
Total tax revenues	12,579	14,410	14.6	37,695	42,769	13.5
<b>Employment insurance premiums</b>	1,603	1,645	2.6	4,971	5,105	2.7
<b>Other revenues</b>	962	1,005	4.5	2,833	3,006	6.1
<b>Total budgetary revenues</b>	15,144	17,060	12.7	45,499	50,880	11.8

Note: Totals may not sum due to rounding.

Table 3

## Budgetary expenses

	June		Change	April to June		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,288	2,405	5.1	6,855	7,203	5.1
Employment insurance benefits	1,013	995	-1.8	3,615	3,520	-2.6
Total	3,301	3,400	3.0	10,470	10,723	2.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		3,163	4,750	
Canada Social Transfer	652	685		1,956	2,056	
Health Reform Transfer	125	0		375	0	
Canada Health and Social Transfer	8	0		25	0	
Total	1,839	2,268	23.3	5,519	6,806	23.3
Fiscal transfers	945	1,320	39.7	2,846	3,498	22.9
Alternative Payments for Standing Programs	-253	-254	0.4	-759	-761	0.3
Total	2,531	3,334	31.7	7,606	9,543	25.5
Subsidies and other transfers						
Agriculture	65	103	58.5	124	448	261.3
Foreign Affairs	241	114	-52.7	576	507	-12.0
Health	89	136	52.8	375	410	9.3
Human Resources Development	100	75	-25.0	404	291	-28.0
Indian and Northern Development	283	360	27.2	1,212	1,330	9.7
Industry and Regional Development	139	221	59.0	363	428	17.9
Other	447	404	-9.6	859	1,265	47.3
Total	1,364	1,413	3.6	3,913	4,679	19.6
Total transfer payments	7,196	8,147	13.2	21,989	24,945	13.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	67	75	11.9	366	355	-3.0
Canada Mortgage and Housing Corporation	195	150	-23.1	555	518	-6.7
Other	184	122	-33.7	578	522	-9.7
Total	446	347	-22.2	1,499	1,395	-6.9
Defence	906	1,222	34.9	2,649	2,878	8.6
All other departments and agencies	2,657	2,774	4.4	7,795	8,317	6.7
Total other program expenses	4,009	4,343	8.3	11,943	12,590	5.4
<b>Total program expenses</b>	11,205	12,490	11.5	33,932	37,535	10.6
<b>Public debt charges</b>	2,842	2,845	0.1	8,666	8,517	-1.7
<b>Total budgetary expenses</b>	14,047	15,335	9.2	42,598	46,052	8.1

Note: Totals may not sum due to rounding.



# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	June		April to June	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,097	1,725	2,901	4,828
<b>Non-budgetary transactions</b>				
Capital investing activities	-37	-275	-254	-159
Other investing activities	-204	-257	-92	-735
Pension and other accounts	-5	-112	330	-936
Other activities				
Accounts payable, receivables, accruals and allowances	-6,238	-4,684	-10,992	-9,725
Foreign exchange activities	671	-184	175	589
Amortization of tangible capital assets	226	232	748	731
Total other activities	-5,341	-4,636	-10,069	-8,405
<b>Total non-budgetary transactions</b>	-5,587	-5,280	-10,085	-10,235
<b>Net financial source/requirement</b>	-4,490	-3,555	-7,184	-5,407

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	June		April to June	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Net financial source/requirement</b>	-4,490	-3,555	-7,184	-5,407
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-9,867	-3,303	-7,710	-1,636
Treasury bills	800	-400	800	-4,900
Canada Savings Bonds	-75	-81	-122	-220
Other	-6	-139	-14	-139
Total	-9,148	-3,923	-7,046	-6,895
Foreign currency borrowings	231	44	-743	-1,380
Total	-8,917	-3,879	-7,789	-8,275
Obligations related to capital leases	-1	-2	-14	-2
<b>Net change in financing activities</b>	-8,918	-3,881	-7,803	-8,277
<b>Change in cash balance</b>	-13,408	-7,436	-14,987	-13,684

Note: Totals may not sum due to rounding.

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August 2005

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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### July 2005: budgetary surplus of \$2.3 billion

There was a budgetary surplus of \$2.3 billion in July 2005, \$0.9 billion higher than the surplus of \$1.4 billion reported in July 2004. This year-over-year improvement in the budgetary surplus is attributable to higher revenues, up \$1.7 billion, or 10.4 per cent, compared to the same period last year. Program expenses rose \$1.0 billion, or 9.0 per cent, primarily reflecting higher transfer payments, in particular higher transfers to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF).

Public debt charges declined by \$0.2 billion.

### April to July 2005: budgetary surplus of \$7.1 billion

For the first four months of the 2005–06 fiscal year (April to July), the budgetary surplus is estimated at \$7.1 billion, up \$2.8 billion from the \$4.3-billion surplus reported in the same period last year.

Budgetary revenues were up \$7.1 billion, or 11.5 per cent, reflecting strong year-over-year gains in personal and corporate income tax receipts. Strong year-to-date growth in personal income tax receipts is due to higher source deductions from employment income, which are currently growing at about twice the rate of the estimated growth in wages and salaries. Higher corporate income tax receipts in part reflect timing factors related to corporate remittance procedures, which will unwind as the year progresses. Program expenses were up \$4.6 billion, or 10.2 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.4 billion lower.

*The monthly financial results for the first part of the year are variable. Caution should be exercised in using these results to project the outcome for the year as a whole. A complete update of the fiscal outlook for 2005–06 and future years will be provided later this fall.*

### July 2005

There was a budgetary surplus of \$2.3 billion in July 2005, up \$0.9 billion from the \$1.4-billion surplus reported during the same month last year.

Budgetary revenues totalled \$17.7 billion, an increase of \$1.7 billion, or 10.4 per cent, from July 2004. Gains primarily reflect higher income tax receipts.

- Personal income tax revenues were up \$1.1 billion, or 14.5 per cent, due to strong

growth in source deductions from employment income.

- Corporate income tax revenues increased by \$0.1 billion, or 5.2 per cent, reflecting ongoing gains in profits.
- Excise taxes and duties declined \$225 million, or 5.6 per cent. Goods and services tax (GST) revenues declined 0.3 per cent as a result of higher refunds. Customs import duties were down \$68 million, while sales and excise taxes were \$144 million lower.



# The Fiscal Monitor

Revenues from the Air Travellers Security Charge were \$4 million lower, reflecting the reductions in the charge, as announced in the 2005 budget.

- Employment insurance (EI) premiums were down slightly, falling 0.4 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$553 million, or 59.7 per cent. Other revenues are volatile on a monthly basis.

On a year-over-year basis, program expenses in July 2005 were \$12.6 billion, up \$1.0 billion or 9.0 per cent from July 2004, due mainly to higher transfer payments.

Transfer payments were \$0.6 billion or 8.1 per cent higher.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$224 million, or 6.9 per cent, on a year-over-year basis. Elderly benefits increased 4.3 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefit payments increased by 12.8 per cent, primarily due to an increase in special benefits, such as sickness and paternal benefits, reflecting differences in the timing of payments between July 2005 and July 2004.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.3 billion, or 12.2 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the 2004 agreement on health care.

- Subsidies and other transfers increased by 2.8 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.5 billion, or 10.2 per cent, reflecting increased operating costs and the impact of previous budget measures. This component is quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

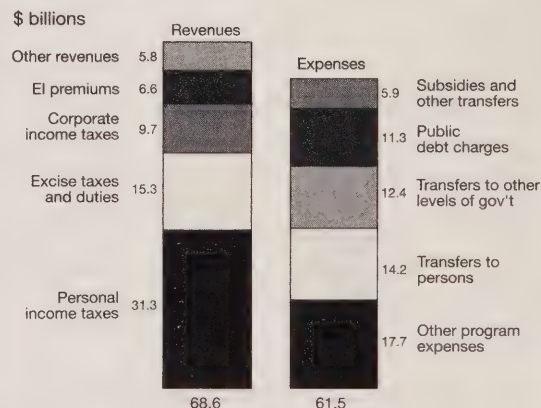
Public debt charges decreased by \$0.2 billion, or 7.6 per cent, due to both a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## April to July 2005

In the first four months of the 2005–06 fiscal year, there was a budgetary surplus of \$7.1 billion, up \$2.8 billion from the surplus of \$4.3 billion reported in the same period of 2004–05.

### Revenues and expenses

(April-July 2005)





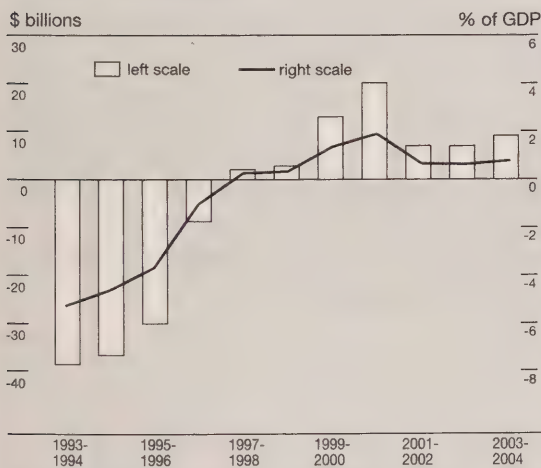
Budgetary revenues, at \$68.6 billion, were up \$7.1 billion, or 11.5 per cent.

- Personal income tax revenues increased by \$3.0 billion, or 10.6 per cent, much higher than the estimated growth in wages and salaries of about 5 per cent during the period. The year-over-year increase is largely attributable to the growth in source deductions from employment income.
- Corporate income tax revenues were up \$2.1 billion, or 27.3 per cent, over the last year, or more than double the growth rate of corporate profits. This gain is in part due to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004–05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large

settlement payments in the final quarter of 2004–05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through July 2004 reflecting 2003 liabilities, the growth in corporate receipts so far this year overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received at the end of the 2005–06 fiscal year.

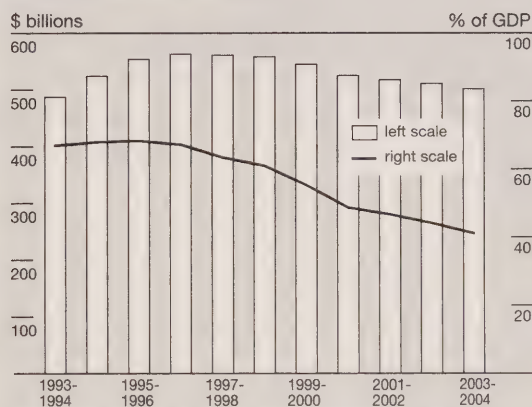
- Excise taxes and duties increased by \$0.9 billion, or 6.3 per cent. GST revenues increased by \$0.9 billion, or 9.0 per cent, well above the growth of the applicable tax base, due to higher gross receipts from domestic sales and on imports and a somewhat slower pace of refunds. Sales and excise taxes were down 0.9 per cent, while the Air Travellers Security Charge was down 8.4 per cent.
- EI premiums were up 2.0 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were up 19.4 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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On a year-over-year basis, program expenses in the April to July 2005 period, at \$50.2 billion, were up \$4.6 billion, or 10.2 per cent, over the same period of 2004–05, with most of the increase attributable to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.4 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$3.5 billion, or 12.2 per cent.

- Transfers to persons advanced by 3.5 per cent. Elderly benefits were up 4.9 per cent, while EI benefits were up 0.7 per cent. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits were higher.
- Transfers to other levels of government were up \$2.2 billion, or 22.1 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization/TFF.
- Subsidies and other transfers increased by 15.6 per cent, reflecting the impact of previous budget measures.

Other program expenses increased by 6.8 per cent due to increases in departmental operating costs. Crown corporation expenses were virtually unchanged.

The decline in public debt charges is attributable to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial requirement of \$5.4 billion for April to July 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$12.5 billion in the April-to-July period, up \$2.4 billion from the requirement in the same period of 2004–05. This increase reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the offshore revenue agreements.

With a budgetary surplus of \$7.1 billion and a net requirement of \$12.5 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first four months of 2005–06, down \$0.4 billion from the same period last year.

### **Net financing activities down \$8.4 billion**

The Government's market debt was down \$8.4 billion by the end of July 2005, with all components being lower. To finance the financial requirement of \$5.4 billion and the reduction of market debt, the Government reduced its cash balances by \$13.8 billion.

The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at \$3.4 billion.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,051	17,715	61,552	68,602
Expenses				
Program expenses	-11,598	-12,638	-45,532	-50,176
Public debt charges	-3,031	-2,801	-11,696	-11,319
Budgetary balance (deficit/surplus)	1,422	2,276	4,324	7,107
<b>Non-budgetary transactions</b>	-68	-2,272	-10,153	-12,508
<b>Financial source/requirement</b>	1,354	4	-5,829	-5,401
<b>Net change in financing activities</b>	807	-84	-6,995	-8,361
<b>Net change in cash balances</b>	2,161	-80	-12,824	-13,762
<b>Cash balance at end of period</b>			4,425	3,361

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	July			April to July		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,453	8,536	14.5	28,265	31,253	10.6
Corporate income tax	1,899	1,997	5.2	7,600	9,677	27.3
Other income tax revenue	266	427	60.5	1,101	1,315	19.4
Total income tax	9,618	10,960	14.0	36,966	42,245	14.3
Excise taxes and duties						
Goods and services tax	2,728	2,719	-0.3	10,013	10,914	9.0
Customs import duties	317	249	-21.5	995	1,046	5.1
Sales and excise taxes	960	816	-15.0	3,250	3,221	-0.9
Air Travellers Security Charge	35	31	-11.4	131	120	-8.4
Total excise taxes and duties	4,040	3,815	-5.6	14,389	15,301	6.3
Total tax revenues	13,658	14,775	8.2	51,355	57,546	12.1
<b>Employment insurance premiums</b>	1,466	1,460	-0.4	6,438	6,566	2.0
<b>Other revenues</b>	927	1,480	59.7	3,759	4,490	19.4
<b>Total budgetary revenues</b>	16,051	17,715	10.4	61,552	68,602	11.5

Note: Totals may not sum due to rounding.

Table 3

## Budgetary expenses

	July		Change	April to July		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,273	2,371	4.3	9,127	9,574	4.9
Employment insurance benefits	981	1,107	12.8	4,597	4,628	0.7
Total	3,254	3,478	6.9	13,724	14,202	3.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		4,217	6,333	
Canada Social Transfer	652	685		2,608	2,742	
Health Reform Transfer	125	0		500	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	7,350	9,075	23.5
Fiscal transfers	943	831	-11.9	3,790	4,330	14.2
Alternative Payments for Standing Programs	-225	-239	6.2	-984	-1,001	1.7
Total	2,549	2,860	12.2	10,156	12,404	22.1
Subsidies and other transfers						
Agriculture	29	-55	-289.7	153	393	156.9
Foreign Affairs	151	173	14.6	727	680	-6.5
Health	233	211	-9.4	608	621	2.1
Human Resources Development	88	103	17.0	492	393	-20.1
Indian and Northern Development	340	316	-7.1	1,552	1,646	6.1
Industry and Regional Development	131	147	12.2	495	575	16.2
Other	215	325	51.2	1,072	1,587	48.0
Total	1,187	1,220	2.8	5,099	5,895	15.6
Total transfer payments	6,990	7,558	8.1	28,979	32,501	12.2
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	94	100	6.4	460	455	-1.1
Canada Mortgage and Housing Corporation	170	186	9.4	725	704	-2.9
Other	122	211	73.0	701	733	4.6
Total	386	497	28.8	1,886	1,892	0.3
Defence	1,120	1,566	39.8	3,768	4,444	17.9
All other departments and agencies	3,102	3,017	-2.7	10,899	11,339	4.0
Total other program expenses	4,608	5,080	10.2	16,553	17,675	6.8
<b>Total program expenses</b>	11,598	12,638	9.0	45,532	50,176	10.2
<b>Public debt charges</b>	3,031	2,801	-7.6	11,696	11,319	-3.2
<b>Total budgetary expenses</b>	14,629	15,439	5.5	57,228	61,495	7.5

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,422	2,276	4,324	7,107
<b>Non-budgetary transactions</b>				
Capital investing activities	-19	178	-272	19
Other investing activities	-264	-595	-356	-1,331
Pension and other accounts	-636	-305	-307	-1,241
Other activities				
Accounts payable, receivables, accruals and allowances	489	-3,491	-10,503	-13,216
Foreign exchange activities	104	1,679	279	2,268
Amortization of tangible capital assets	258	262	1,006	993
Total other activities	851	-1,550	-9,218	-9,955
<b>Total non-budgetary transactions</b>	-68	-2,272	-10,153	-12,508
<b>Net financial source/requirement</b>	1,354	4	-5,829	-5,401

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Net financial source/requirement</b>	1,354	4	-5,829	-5,401
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	278	758	-7,432	-878
Treasury bills	1,000	1,300	1,800	-3,600
Canada Savings Bonds	-61	-88	-183	-308
Other	-5	-2	-19	-141
Total	1,212	1,968	-5,834	-4,927
Foreign currency borrowings	-391	-2,125	-1,133	-3,504
Total	821	-157	-6,967	-8,431
Obligations related to capital leases	-14	73	-28	70
<b>Net change in financing activities</b>	807	-84	-6,995	-8,361
<b>Change in cash balance</b>	2,161	-80	-12,824	-13,762

Note: Totals may not sum due to rounding.

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September 2005



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### August 2005: budgetary deficit of \$0.3 billion

There was a budgetary deficit of \$0.3 billion in August 2005 compared to a surplus of \$0.3 billion reported in August 2004, in part reflecting a slowing in the growth of personal income tax revenues and a decline in net goods and services tax (GST) revenues. Total revenues were up \$0.4 billion or 3.1 per cent. Program expenses were \$1.1 billion or 10.1 per cent higher, primarily reflecting higher transfer payments to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges declined by \$0.1 billion.

### April to August 2005: budgetary surplus of \$6.8 billion

For the first five months of the 2005–06 fiscal year (April to August), the budgetary surplus is estimated at \$6.8 billion, up \$2.2 billion from the \$4.6-billion surplus reported in the same period of 2004–05. Budgetary revenues were up \$7.5 billion or 9.8 per cent, primarily reflecting strong year-over-year gains in personal and corporate income tax receipts. The strong year-to-date growth in personal income tax receipts is due to higher source deductions from employment income. Higher corporate income tax receipts in part reflect timing factors related to corporate remittance procedures, which will unwind as the year progresses. Program expenses were up \$5.8 billion or 10.2 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.5 billion lower.

*The monthly financial results for the first five months of the year are only partial-year results. Caution should therefore be exercised in using these results to project the outcome for the full year. A complete update of the fiscal outlook for 2005–06 and future years will be provided later this fall.*

### August 2005

There was a budgetary deficit \$0.3 billion in August 2005 compared to a surplus of \$0.3 billion reported during the same month last year.

Budgetary revenues totalled \$15.1 billion, an increase of \$0.4 billion or 3.1 per cent from August 2004. Gains primarily reflect higher income tax receipts.

- Personal income tax revenues were up \$0.2 billion or 2.9 per cent.

- Corporate income tax revenues increased by \$0.3 billion or 30.8 per cent, reflecting timing factors related to remittance procedures.
- Excise taxes and duties declined \$56 million or 1.4 per cent. GST revenues declined 3.6 per cent as a result of higher refunds. Customs import duties were up \$23 million, while sales and excise taxes were up \$24 million. Revenues from the Air Travellers Security Charge were up marginally.



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# The Fiscal Monitor

- Employment insurance (EI) premiums were down slightly (0.9 per cent).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$33 million, or 3.3 per cent. Other revenues are volatile on a monthly basis.

Program expenses were \$12.5 billion in August 2005, up \$1.1 billion or 10.1 per cent from August 2004, due mainly to higher transfer payments.

Transfer payments were \$0.9 billion or 12.7 per cent higher.

- Major transfers to persons, consisting of elderly and EI benefits, were down \$54 million, or 1.5 per cent, on a year-over-year basis. Elderly benefits increased 4.1 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 11.1 per cent, primarily due to a decrease in regular benefits, reflecting differences in the timing of payments between August 2005 and August 2004.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.6 billion, or 23.0 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers reflect increased funding under the 2004 agreements on health care and equalization/TFF.

- Subsidies and other transfers increased by 38.7 per cent. This component is quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of measures from recent budgets.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.2 billion, or 5.7 per cent, reflecting increased operating costs and the impact of previous budget measures.

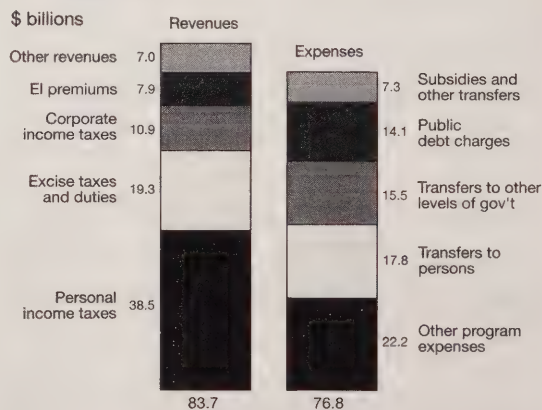
Public debt charges decreased by \$0.1 billion, or 4.4 per cent, due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## April to August 2005

In the first five months of the 2005–06 fiscal year, there was a budgetary surplus of \$6.8 billion, up \$2.2 billion from the surplus of \$4.6 billion reported in the same period of 2004–05.

### Revenues and expenses

(April–August 2005)





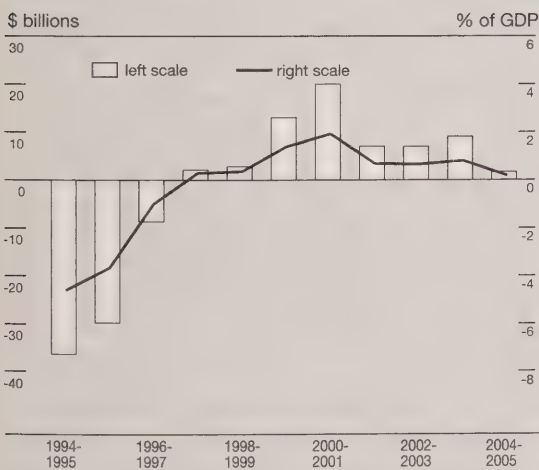
Budgetary revenues, at \$83.7 billion, were up \$7.5 billion or 9.8 per cent.

- Personal income tax revenues increased by \$3.2 billion or 9.0 per cent, which is considerably higher than the estimated growth in wages and salaries of about 5 per cent during the period. The year-over-year increase is largely attributable to the growth in source deductions from employment income.
- Corporate income tax revenues were up \$2.4 billion or 27.7 per cent over the same period last year, or more than double the growth rate of corporate profits. This gain is in part due to the procedures under which corporations are required to remit monthly installments. Corporations make monthly tax installment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004–05, most corporations based their installments on their 2003 tax liabilities.

However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004–05. With monthly installments in 2005 now based on 2004 tax liabilities, but installments through August 2004 reflecting 2003 liabilities, the year-to-date growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received at the end of the 2005–06 fiscal year.

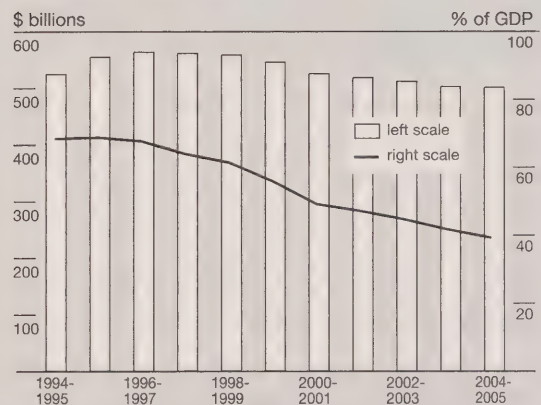
- Excise taxes and duties increased by \$0.9 billion or 4.6 per cent. GST revenues increased by \$0.8 billion or 6.2 per cent. Customs import duties were up 5.7 per cent, while sales and excise taxes and the Air Travellers Security Charge were down 0.1 per cent and 6.3 per cent, respectively.
- EI premiums were up 1.5 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were up 14.7 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



# The Fiscal Monitor

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On a year-over-year basis, program expenses in the April to August 2005 period, at \$62.7 billion, were up \$5.8 billion or 10.2 per cent over the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.5 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$4.4 billion or 12.3 per cent.

- Transfers to persons advanced by 2.4 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 2.0 per cent. The decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$2.8 billion or 22.3 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 19.4 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 6.5 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 1.3 per cent.

The decline in public debt charges is attributable to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial requirement of \$5.4 billion for April to August 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the

financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$12.2 billion in the April-to-August period, up \$3.5 billion from the requirement in the same period of 2004–05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords.

With a budgetary surplus of \$6.8 billion and a net requirement of \$12.2 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first five months of 2005–06, up \$1.3 billion from the same period last year.

## **Net financing activities down \$4.5 billion**

The Government's market debt was down \$4.5 billion by the end of August 2005. To finance the financial requirement of \$5.4 billion and the reduction of market debt, the Government reduced its cash balances by \$9.8 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of August stood at \$7.3 billion.

Table 1

## Summary statement of transactions

	August		April to August	
	2004	2005	2004-05	2005-06
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	14,603	15,050	76,151	83,650
Expenses				
Program expenses	-11,390	-12,538	-56,920	-62,714
Public debt charges	-2,913	-2,784	-14,609	-14,103
Budgetary balance (deficit/surplus)	300	-272	4,622	6,833
<b>Non-budgetary transactions</b>	1,417	297	-8,735	-12,208
<b>Financial source/requirement</b>	1,717	25	-4,113	-5,375
<b>Net change in financing activities</b>	2,850	3,904	-4,145	-4,458
<b>Net change in cash balances</b>	4,567	3,929	-8,258	-9,833
<b>Cash balance at end of period</b>			8,994	7,290

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	August			April to August		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,076	7,283	2.9	35,340	38,536	9.0
Corporate income tax	972	1,271	30.8	8,572	10,949	27.7
Other income tax revenue	218	260	19.3	1,319	1,575	19.4
Total income tax	8,266	8,814	6.6	45,231	51,060	12.9
Excise taxes and duties						
Goods and services tax	2,906	2,802	-3.6	12,919	13,716	6.2
Customs import duties	309	332	7.4	1,304	1,378	5.7
Sales and excise taxes	797	821	3.0	4,047	4,042	-0.1
Air Travellers Security Charge	28	29	3.6	159	149	-6.3
Total excise taxes and duties	4,040	3,984	-1.4	18,429	19,285	4.6
Total tax revenues	12,306	12,798	4.0	63,660	70,345	10.5
<b>Employment insurance premiums</b>	1,309	1,297	-0.9	7,746	7,863	1.5
<b>Other revenues</b>	988	955	-3.3	4,745	5,442	14.7
<b>Total budgetary revenues</b>	14,603	15,050	3.1	76,151	83,650	9.8

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	August		Change	April to August		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,310	2,404	4.1	11,437	11,978	4.7
Employment insurance benefits	1,328	1,180	-11.1	5,925	5,808	-2.0
Total	3,638	3,584	-1.5	17,362	17,786	2.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		5,271	7,917	
Canada Social Transfer	652	685		3,260	3,427	
Health Reform Transfer	125	0		625	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	9,181	11,344	23.6
Fiscal transfers	927	1,044	12.6	4,717	5,375	13.9
Alternative Payments for Standing Programs	-225	-196	-12.9	-1,209	-1,197	-1.0
Total	2,533	3,116	23.0	12,689	15,522	22.3
Subsidies and other transfers						
Agriculture	-8	66	n/a	145	459	216.6
Foreign Affairs	167	321	92.2	894	1,002	12.1
Health	87	81	-6.9	695	702	1.0
Human Resources Development	-95	30	n/a	397	424	6.8
Indian and Northern Development	337	339	0.6	1,889	1,984	5.0
Industry and Regional Development	211	211	0.0	705	786	11.5
Other	278	307	10.4	1,350	1,896	40.4
Total	977	1,355	38.7	6,075	7,253	19.4
Total transfer payments	7,148	8,055	12.7	36,126	40,561	12.3
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	85	140	64.7	545	595	9.2
Canada Mortgage and Housing Corporation	140	142	1.4	865	846	-2.2
Other	178	144	-19.1	878	876	-0.2
Total	403	426	5.7	2,288	2,317	1.3
Defence	1,097	1,177	7.3	4,865	5,620	15.5
All other departments and agencies	2,742	2,880	5.0	13,641	14,216	4.2
Total other program expenses	4,242	4,483	5.7	20,794	22,153	6.5
<b>Total program expenses</b>	11,390	12,538	10.1	56,920	62,714	10.2
<b>Public debt charges</b>	2,913	2,784	-4.4	14,609	14,103	-3.5
<b>Total budgetary expenses</b>	14,303	15,322	7.1	71,529	76,817	7.4

Note: Totals may not sum due to rounding.



Table 4

## Budgetary balance and financial source/requirement

	August		April to August	
	2004	2005	2004-05	2005-06
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	300	-272	4,622	6,833
<b>Non-budgetary transactions</b>				
Capital investing activities	-18	-136	-289	-117
Other investing activities	-196	176	-553	-1,155
Pension and other accounts	189	-448	-117	-1,688
Other activities				
Accounts payable, receivables, accruals and allowances	1,718	1,161	-8,785	-12,053
Foreign exchange activities	-427	-729	-148	1,540
Amortization of tangible capital assets	151	273	1,157	1,265
Total other activities	1,442	705	-7,776	-9,248
<b>Total non-budgetary transactions</b>	1,417	297	-8,735	-12,208
<b>Net financial source/requirement</b>	1,717	25	-4,113	-5,375

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	August		April to August	
	2004	2005	2004-05	2005-06
(\$ millions)				
<b>Net financial source/requirement</b>	1,717	25	-4,113	-5,375
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,767	2,261	-4,665	1,383
Treasury bills	100	1,800	1,900	-1,800
Canada Savings Bonds	-55	-84	-238	-392
Other	-5	-1	-24	-142
Total	2,807	3,976	-3,027	-951
Foreign currency borrowings	49	-86	-1,084	-3,591
Total	2,856	3,890	-4,111	-4,542
Obligations related to capital leases	-6	14	-34	84
<b>Net change in financing activities</b>	2,850	3,904	-4,145	-4,458
<b>Change in cash balance</b>	4,567	3,929	-8,258	-9,833

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2005	August 31, 2005	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	90,473	74,485	-15,988
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	267,953	1,383
Treasury bills	127,199	125,399	-1,800
Canada Savings Bonds	19,080	18,688	-392
Other	3,393	3,251	-142
Subtotal	416,242	415,291	-951
Payable in foreign currencies	16,286	12,695	-3,591
Obligations related to capital leases	2,932	3,016	84
Total unmaturred debt	435,460	431,002	-4,458
Pension and other accounts			
Public sector pensions	129,579	130,442	863
Other employee and veteran future benefits	41,549	41,924	375
Other pension and other accounts	8,680	5,754	-2,926
Total pension and other accounts	179,808	178,120	-1,688
Total interest-bearing debt	615,268	609,122	-6,146
<b>Total liabilities</b>	705,741	683,607	-22,134
<b>Financial assets</b>			
Cash and accounts receivable	76,281	62,513	-13,768
Foreign exchange accounts	40,871	39,331	-1,540
Loans, investments and advances (net of allowances)	33,860	35,015	1,155
<b>Total financial assets</b>	151,012	136,859	-14,153
<b>Net debt</b>	554,729	546,748	-7,981
<b>Non-financial assets</b>	54,866	53,718	-1,148
<b>Federal debt (accumulated deficit)</b>	499,863	493,030	-6,833

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October 2005

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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2005: budgetary surplus of \$0.6 billion

There was a budgetary surplus of \$0.6 billion in September 2005, down \$2.4 billion from the surplus of \$3.0 billion reported in September 2004. The year-over-year decline reflects the inclusion in the September 2004 monthly results of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada. As a result, budgetary revenues declined by \$1.2 billion, or 7.1 per cent. Excluding this transaction, underlying total revenues were \$1.4 billion or 9.5 per cent higher in September 2005 than in September 2004. Program expenses were \$1.3 billion or 11.5 per cent higher, primarily reflecting higher transfer payments to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges declined \$0.1 billion.

### April to September 2005: budgetary surplus of \$7.4 billion

For the first six months of the 2005–06 fiscal year (April to September), the budgetary surplus is estimated at \$7.4 billion, down \$0.2 billion from the \$7.6-billion surplus reported in the same period last year. Budgetary revenues were up \$6.3 billion or 6.8 per cent, primarily reflecting strong year-over-year gains in personal and corporate income tax revenues, dampened by a decline in other revenues, reflecting the gain from the sale of the Government's remaining shares in Petro-Canada in September 2004. The strong year-to-date growth in personal income tax revenues is due to higher source deductions from employment income. Higher corporate income tax revenues in part reflect timing factors related to corporate remittance procedures, which will unwind as the year progresses. Program expenses were up \$7.1 billion or 10.4 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.6 billion lower.

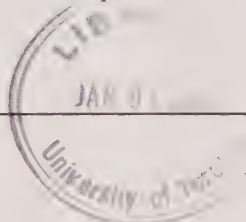
*These monthly financial results are only partial-year results. Caution should therefore be exercised in using these results to project the outcome for the full year. A complete update of the fiscal outlook for 2005–06 and future years is provided in the Economic and Fiscal Update.*

### September 2005

There was a budgetary surplus of \$0.6 billion in September 2005, compared to a surplus of \$3.0 billion reported during the same month last year.

Budgetary revenues totalled \$15.7 billion in September 2005, down \$1.2 billion or 7.1 per cent from September 2004. This decline reflects the inclusion in the September 2004 monthly results of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada.

- Personal income tax revenues were up \$0.4 billion or 6.2 per cent due to higher deductions from employment income.
- Corporate income tax revenues increased by \$0.3 billion or 16.6 per cent, reflecting ongoing gains in corporate profitability and timing factors, as explained below.
- Excise taxes and duties were up \$0.5 billion or 15.1 per cent. Goods and services tax (GST) revenues increased 19.7 per cent as a result of higher gross receipts, due to timing factors which depressed receipts in September 2004.





# The Fiscal Monitor

Customs import duties were up \$28 million, while sales and excise taxes were up \$42 million. Revenues from the Air Travellers Security Charge were down \$5 million.

- Employment insurance (EI) premiums were down slightly (2.0 per cent).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$2.6 billion. This decline reflects the inclusion in the September 2004 monthly results of the one-time gain from the sale of the Government's remaining shares in Petro-Canada.

Program expenses totalled \$12.3 billion in September 2005, up \$1.3 billion or 11.5 per cent from September 2004.

Transfer payments were up \$0.6 billion or 8.6 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$86 million or 2.6 per cent. Elderly benefits increased 4.3 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments fell 1.4 per cent, primarily due to a decrease in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.6 billion or 22.7 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers largely reflects increased funding under the 2004 agreements on health care and equalization/TFF.
- Subsidies and other transfers decreased by 4.7 per cent, largely reflecting an adjustment for transactions related to prior months.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence.

On a year-over-year basis, these expenses were up \$0.7 billion, or 16.7 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges decreased by \$0.1 billion or 1.8 per cent due to both a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

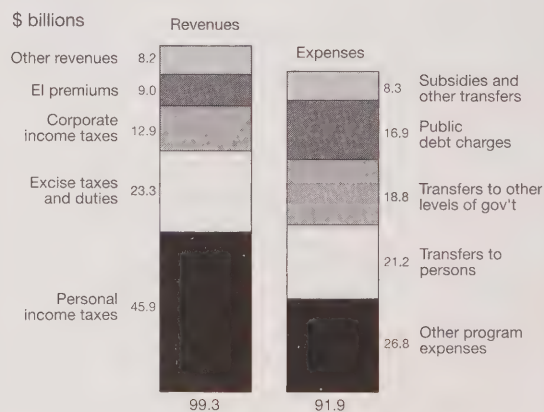
## April to September 2005

In the first six months of 2005–06, there was a budgetary surplus of \$7.4 billion, down \$0.2 billion from the surplus of \$7.6 billion reported in the same period of 2004–05.

At \$99.3 billion, budgetary revenues were up \$6.3 billion or 6.8 per cent.

- Personal income tax revenues increased by \$3.6 billion, or 8.6 per cent, which is considerably higher than the estimated growth in wages and salaries of about 4 per cent during the period, reflecting the very strong year-over-year growth witnessed in the first four months of the year. The year-over-year increase is largely attributable to the growth in source deductions from employment income.

## Revenues and expenses (April–September 2005)

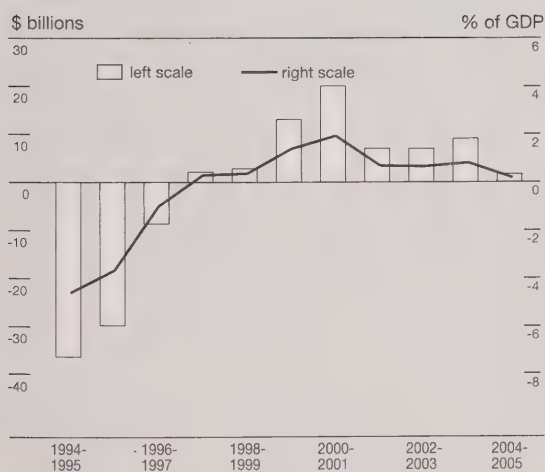


- Corporate income tax revenues were up \$2.7 billion, or 25.9 per cent over the same period last year, or more than double the estimated growth rate of corporate profits. This gain is in part due to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004–05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004–05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through September 2004 reflecting 2003 liabilities, the year-to-date growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received in the last four months of 2005–06.

- Excise taxes and duties increased by \$1.4 billion or 6.3 per cent. GST revenues increased by \$1.3 billion or 8.3 per cent. Customs import duties were up 6.5 per cent. Sales and excise taxes were up marginally (0.7 per cent) while the Air Travellers Security Charge was down 7.2 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 1.0 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were down \$1.9 billion or 23.2 per cent, reflecting the one-time gain from the sale of the Government's remaining shares in Petro-Canada in September 2004.

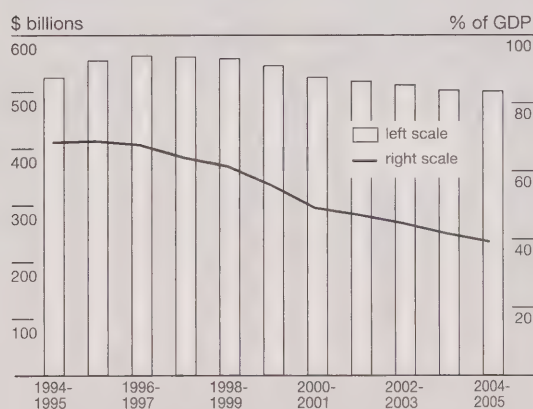
On a year-over-year basis, program expenses in the April to September 2005 period were \$75.0 billion, up \$7.1 billion or 10.4 per cent over the same period of 2004–05, with most of the increase attributable to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.6 billion.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$5.1 billion or 11.7 per cent.

- Transfers to persons advanced by 2.5 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 1.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$3.5 billion, or 23.2 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 13.8 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 8.1 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.2 per cent.

Public debt charges were down 3.2 per cent compared to the same period last year due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial requirement of \$2.8 billion for April to September 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out.

This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.2 billion in the April-to-September period, up \$1.7 billion from the requirement in the same period of 2004–05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords.

With a budgetary surplus of \$7.4 billion and a net requirement of \$10.2 billion from non-budgetary transactions, there was a financial requirement of \$2.8 billion in the first six months of 2005–06, up \$1.9 billion from the same period last year.

## **Net financing activities down \$11.6 billion**

The Government's market debt was down \$11.6 billion by the end of September 2005. To finance this reduction of market debt and the financial requirement of \$2.8 billion, the Government reduced its cash balances by \$14.4 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September stood at \$2.7 billion.



Table 1

## Summary statement of transactions

	September		April to September	
	2004	2005	2004–05	2005–06
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	16,868	15,669	93,018	99,321
Expenses				
Program expenses	-11,014	-12,279	-67,934	-75,003
Public debt charges	-2 866	-2 814	-17,476	-16,917
Budgetary balance (deficit/surplus)	2,988	576	7,608	7,401
<b>Non-budgetary transactions</b>	155	1,960	-8,581	-10,237
<b>Financial source/requirement</b>	3,143	2,536	-973	-2,836
<b>Net change in financing activities</b>	-6,431	-7,124	-10,576	-11,582
<b>Net change in cash balances</b>	-3,288	-4,588	-11,549	-14,418
<b>Cash balance at end of period</b>			5,701	2,702

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	September			April to September		
	2004	2005	Change	2004–05	2005–06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,979	7,413	6.2	42,319	45,949	8.6
Corporate income tax	1,648	1,921	16.6	10,220	12,870	25.9
Other income tax revenue	181	355	96.1	1,500	1,930	28.7
Total income tax	8,808	9,689	10.0	54,039	60,749	12.4
Excise taxes and duties						
Goods and services tax	2,369	2,835	19.7	15,288	16,550	8.3
Customs import duties	277	305	10.1	1,581	1,683	6.5
Sales and excise taxes	824	866	5.1	4,871	4,906	0.7
Air Travellers Security Charge	35	30	-14.3	194	180	-7.2
Total excise taxes and duties	3,505	4,036	15.1	21,934	23,319	6.3
Total tax revenues	12,313	13,725	11.5	75,973	84,068	10.7
<b>Employment insurance premiums</b>	1,163	1,140	-2.0	8,910	9,003	1.0
<b>Other revenues</b>	3,392	804	-76.3	8,135	6,250	-23.2
<b>Total budgetary revenues</b>	16,868	15,669	-7.1	93,018	99,321	6.8

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	September		Change	April to September		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,315	2,415	4.3	13,752	14,393	4.7
Employment insurance benefits	1,011	997	-1.4	6,935	6,804	-1.9
Total	3,326	3,412	2.6	20,687	21,197	2.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		6,325	9,500	
Canada Social Transfer	652	685		3,912	4,113	
Health Reform Transfer	125	0		750	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	11,012	13,613	23.6
Fiscal transfers	927	1,011	9.1	5,645	6,403	13.4
Canada's cities and communities	0	69	n/a	0	181	n/a
Alternative Payments for Standing Programs	-225	-239	6.2	-1,433	-1,436	0.2
Total	2,533	3,109	22.7	15,224	18,761	23.2
Subsidies and other transfers						
Agriculture	88	81	-8.0	232	540	132.8
Foreign Affairs	129	249	93.0	1,023	1,246	21.8
Health	179	229	27.9	874	932	6.6
Human Resources Development	102	137	34.3	499	561	12.4
Indian and Northern Development	302	325	7.6	2,192	2,310	5.4
Industry and Regional Development	122	132	8.2	827	918	11.0
Other	276	-11	-104.0	1,625	1,771	9.0
Total	1,198	1,142	-4.7	7,272	8,278	13.8
Total transfer payments	7,057	7,663	8.6	43,183	48,236	11.7
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	109	73	-33.0	654	668	2.1
Canada Mortgage and Housing Corporation	170	184	8.2	1,035	1,030	-0.5
Other	116	112	-3.4	994	990	-0.4
Total	395	369	-6.6	2,683	2,688	0.2
Defence	1,090	1,435	31.7	5,955	7,054	18.5
All other departments and agencies	2,472	2,812	13.8	16,113	17,025	5.7
Total other program expenses	3,957	4,616	16.7	24,751	26,767	8.1
<b>Total program expenses</b>	11,014	12,279	11.5	67,934	75,003	10.4
<b>Public debt charges</b>	2,866	2,814	-1.8	17,476	16,917	-3.2
<b>Total budgetary expenses</b>	13,880	15,093	8.7	85,410	91,920	7.6

Note: Totals may not sum due to rounding.

Table 4

## Budgetary balance and financial source/requirement

	September		April to September	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	2,988	576	7,608	7,401
<b>Non-budgetary transactions</b>				
Capital investing activities	-180	-613	-471	-730
Other investing activities	-295	-925	-847	-2,080
Pension and other accounts	-239	807	-355	-881
Other activities				
Accounts payable, receivables, accruals and allowances	841	2,065	-7,945	-9,977
Foreign exchange activities	-161	344	-309	1,884
Amortization of tangible capital assets	189	282	1,346	1,547
Total other activities	869	2,691	-6,908	-6,546
<b>Total non-budgetary transactions</b>	155	1,960	-8,581	-10,237
<b>Net financial source/requirement</b>	3,143	2,536	-973	-2,836

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	September		April to September	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Net financial source/requirement</b>	3,143	2,536	-973	-2,836
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-4,813	-4,461	-9,478	-3,078
Treasury bills	-1,500	-2,600	400	-4,400
Canada Savings Bonds	-30	-36	-268	-429
Other	-1	-26	-25	-168
Total	-6,344	-7,123	-9,371	-8,075
Foreign currency borrowings	-83	8	-1,167	-3,583
Total	-6,427	-7,115	-10,538	-11,658
Obligations related to capital leases	-4	-9	-38	76
<b>Net change in financing activities</b>	-6,431	-7,124	-10,576	-11,582
<b>Change in cash balance</b>	-3,288	-4,588	-11,549	-14,418

Note: Totals may not sum due to rounding.



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2005	September 30, 2005	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	90,473	75,284	-15,189
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	263,492	-3,078
Treasury bills	127,199	122,799	-4,400
Canada Savings Bonds	19,080	18,651	-429
Other	3,393	3,225	-168
Subtotal	416,242	408,167	-8,075
Payable in foreign currencies	16,286	12,703	-3,583
Obligations related to capital leases	2,932	3,008	76
Total unmaturred debt	435,460	423,878	-11,582
Pension and other accounts			
Public sector pensions	129,579	130,721	1,142
Other employee and veteran future benefits	41,549	42,329	780
Other pension and other accounts	8,680	5,877	-2,803
Total pension and other accounts	179,808	178,927	-881
Total interest-bearing debt	615,268	602,805	-12,463
<b>Total liabilities</b>	705,741	678,089	-27,652
<b>Financial assets</b>			
Cash and accounts receivable	76,281	56,651	-19,630
Foreign exchange accounts	40,871	38,987	-1,884
Loans, investments and advances (net of allowances)	33,860	35,940	2,080
<b>Total financial assets</b>	151,012	131,578	-19,434
<b>Net debt</b>	554,729	546,511	-8,218
<b>Non-financial assets</b>	54,866	54,049	-817
<b>Federal debt (accumulated deficit)</b>	499,863	492,462	-7,401

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November 2005

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

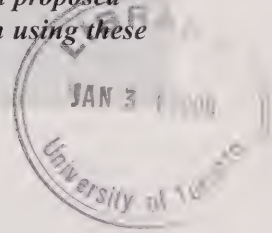
### October 2005: budgetary surplus of \$2.1 billion

There was a budgetary surplus of \$2.1 billion in October 2005, up \$1.0 billion from October 2004. Total budgetary revenues rose \$1.8 billion or 11.6 per cent, reflecting strong gains in personal income tax and goods and services tax (GST) revenues, offset somewhat by a decline in corporate income tax revenue. Personal income tax receipts rose 19.9 per cent in October, reflecting timing factors that will unwind in November 2005. GST receipts increased 26.2 per cent, in part reflecting the resumption of normal processing of GST receipts following public sector labour disruptions in Quebec which affected GST collections in that province. Program expenses were up \$0.7 billion or 6.1 per cent, primarily reflecting higher transfer payments to provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges increased slightly in October.

### April to October 2005: budgetary surplus of \$9.5 billion

For the first seven months of the 2005–06 fiscal year (April to October), the budgetary surplus is estimated at \$9.5 billion, up \$0.8 billion from the same period of 2004–05. Budgetary revenues were up \$8.1 billion or 7.5 per cent, with gains recorded in most major revenue categories. Program expenses were up \$7.8 billion or 9.8 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.5 billion lower.

*These monthly financial results are only partial-year results. For example, they do not reflect proposed tax reductions for 2005–06, which total \$5.3 billion. Caution should therefore be exercised in using these results to project the outcome for the full year.*



## October 2005

There was a budgetary surplus of \$2.1 billion in October 2005, up \$1.0 billion from October 2004.

Budgetary revenues rose \$1.8 billion, or 11.6 per cent, to \$17.2 billion. Strong gains were posted in personal income tax and GST receipts.

- Personal income tax revenues were up \$1.4 billion or 19.9 per cent, reflecting timing factors that will unwind in the November 2005 revenue estimate. In October 2005 there were a larger number of payroll deductions processed compared to the same month last year, and some payroll deductions pertaining to September 2005 were processed in October.
- Corporate income tax revenues fell \$0.3 billion or 12.4 per cent. The decline reflects the significant jump in corporate receipts in October 2004, related to the clearance of a processing backlog that resulted from last year's public sector labour disruptions.
- Other income tax receipts—withholdings from non-residents—were up 52.8 per cent in October, reflecting increases in dividends and royalties paid to non-residents, consistent with increases in corporate profitability this year. This revenue source can be volatile on a monthly basis.



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- Excise taxes and duties were up \$0.7 billion, or 18.9 per cent. GST revenues increased 26.2 per cent, in part reflecting the resumption of normal processing of GST receipts following public sector labour disruptions at the Ministère du Revenu du Québec, which administers the GST in Quebec on behalf of the federal government. Customs import duties were up \$78 million, while sales and excise taxes were down \$50 million. Revenues from the Air Travellers Security Charge were down \$22 million.
- Employment insurance (EI) premiums declined 2.6 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.1 billion. Other revenues are volatile on a monthly basis.

Program expenses in October 2005 were \$12.3 billion, up \$0.7 billion or 6.1 per cent from October 2004, primarily due to higher transfer payments.

Transfer payments were up \$0.6 billion or 8.3 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$87 million, or 2.5 per cent. Elderly benefits increased 2.8 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments increased 1.8 per cent, reflecting an increase in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.7 billion, or 26.6 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFF.

- Subsidies and other transfers decreased by 11.3 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.1 billion, or 2.0 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges increased slightly.

## April to October 2005

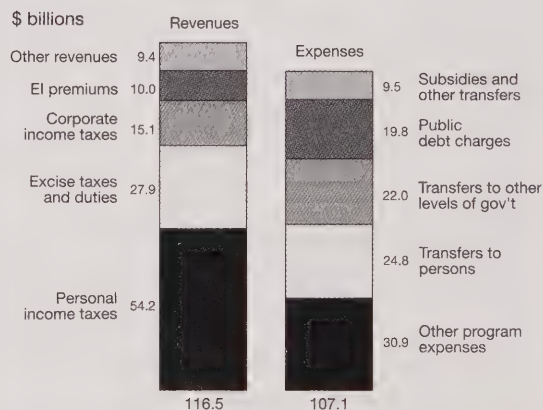
In the first seven months of the 2005–06 fiscal year, there was a budgetary surplus of \$9.5 billion, up \$0.8 billion from the same period of 2004–05.

Budgetary revenues, at \$116.5 billion, were up \$8.1 billion or 7.5 per cent.

- Personal income tax revenues increased by \$5.0 billion or 10.2 per cent, which is considerably higher than the estimated growth in wages and salaries of about 5.3 per cent during the period. The year-over-year increase is largely attributable to the growth in source deductions from employment income. In addition, as noted

## Revenues and expenses

(April-October 2005)





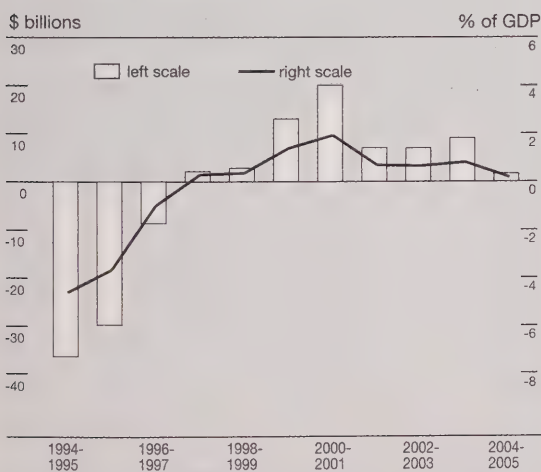
above, some of the year-over-year increase is due to timing factors, which should unwind in future months, thereby bringing the growth in receipts more in line with the growth in the applicable tax base.

- Corporate income tax revenues were up \$2.3 billion or 18.4 per cent. This gain is due in part to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004–05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004–05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through October 2004 reflecting 2003 liabilities, the year-to-date growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received in the last four months of 2005–06.

- Excise taxes and duties increased by \$2.1 billion or 8.2 per cent. GST revenues increased \$2.0 billion, or 11.0 per cent, reflecting strong growth in domestic gross receipts, which were up 10.2 per cent, somewhat above the growth rate of retail sales of 7.3 per cent over the same period. Customs import duties were up 9.9 per cent. Sales and excise taxes were down marginally (0.2 per cent) while the Air Travellers Security Charge was down 14.9 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 0.7 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were down \$2.0 billion or 22.2 per cent, reflecting the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

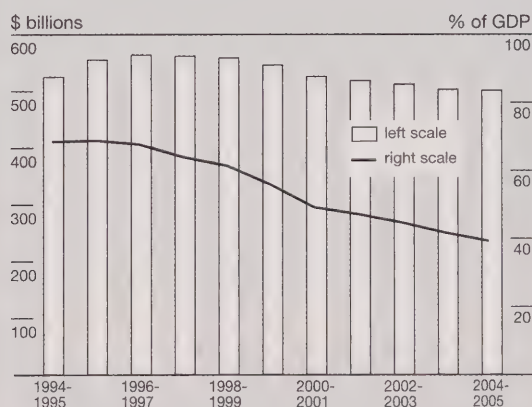
Program expenses in the April to October 2005 period were \$87.3 billion, up \$7.8 billion or 9.8 per cent over the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.5 billion.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$5.7 billion, or 11.2 per cent.

- Transfers to persons advanced by 2.5 per cent. Elderly benefits were up 4.4 per cent while EI benefits were down 1.4 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$4.2 billion or 23.7 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 9.7 per cent, reflecting the impact of measures from recent budgets as well as an adjustment for transactions related to prior months.

Other program expenses increased by 7.3 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.3 per cent.

Public debt charges were down 2.5 per cent compared to the same period last year due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial requirement of \$1.6 billion for April to October 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement

resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$11.1 billion in the April-to-October period, up \$3.7 billion from the requirement in the same period of 2004–05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords.

With a budgetary surplus of \$9.5 billion and a net requirement of \$11.1 billion from non-budgetary transactions, there was a financial requirement of \$1.6 billion in the first seven months of 2005–06 compared to a financial source of \$1.2 billion in the same period last year.

## **Net financing activities down \$11.9 billion**

The Government's market debt was down \$11.9 billion by the end of October 2005. To finance this reduction of market debt and the financial requirement of \$1.6 billion, the Government reduced its cash balances by \$13.5 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at \$3.6 billion.

Table 1

## Summary statement of transactions

	October		April to October	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,409	17,194	108,429	116,514
Expenses				
Program expenses	-11,560	-12,261	-79,495	-87,264
Public debt charges	-2,834	-2,881	-20,309	-19,799
Budgetary balance (deficit/surplus)	1,015	2,052	8,625	9,451
<b>Non-budgetary transactions</b>	1,195	-816	-7,388	-11,056
<b>Financial source/requirement</b>	2,210	1,236	1,237	-1,605
<b>Net change in financing activities</b>	1,610	-362	-8,967	-11,944
<b>Net change in cash balances</b>	3,820	874	-7,730	-13,549
<b>Cash balance at end of period</b>			9,521	3,573

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	October			April to October		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,910	8,282	19.9	49,229	54,231	10.2
Corporate income tax	2,509	2,198	-12.4	12,729	15,069	18.4
Other income tax revenue	269	411	52.8	1,769	2,341	32.3
Total income tax	9,688	10,891	12.4	63,727	71,641	12.4
Excise taxes and duties						
Goods and services tax	2,726	3,440	26.2	18,015	19,991	11.0
Customs import duties	237	315	32.9	1,818	1,998	9.9
Sales and excise taxes	804	754	-6.2	5,675	5,661	-0.2
Air Travellers Security Charge	48	26	-45.8	242	206	-14.9
Total excise taxes and duties	3,815	4,535	18.9	25,750	27,856	8.2
Total tax revenues	13,503	15,426	14.2	89,477	99,497	11.2
<b>Employment insurance premiums</b>	1,031	1,004	-2.6	9,940	10,006	0.7
<b>Other revenues</b>	875	764	-12.7	9,012	7,011	-22.2
<b>Total budgetary revenues</b>	15,409	17,194	11.6	108,429	116,514	7.5

Note: Totals may not sum due to rounding.



# The Fiscal Monitor

Table 3

## Budgetary expenses

	October		Change	April to October		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,359	2,426	2.8	16,111	16,818	4.4
Employment insurance benefits	1,116	1,136	1.8	8,051	7,940	-1.4
Total	3,475	3,562	2.5	24,162	24,758	2.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		7,379	11,083	
Canada Social Transfer	652	685		4,565	4,798	
Health Reform Transfer	125	0		875	0	
Canada Health and Social Transfer	-25	0		0	0	
Total	1,806	2,268	25.6	12,819	15,881	23.9
Fiscal transfers	926	1,044	12.7	6,571	7,447	13.3
Canada's cities and communities	0	213	n/a	0	394	n/a
Alternative Payments for Standing Programs	-139	-242	74.1	-1,573	-1,678	6.7
Total	2,593	3,283	26.6	17,817	22,044	23.7
Subsidies and other transfers						
Agriculture	89	65	-27.0	321	605	88.5
Foreign Affairs	203	-42	-120.7	1,225	1,203	-1.8
Health	105	99	-5.7	979	1,030	5.2
Human Resources Development	7	129	1,742.9	506	689	36.2
Indian and Northern Development	348	367	5.5	2,539	2,676	5.4
Industry and Regional Development	208	211	1.4	1,035	1,129	9.1
Other	448	421	-6.1	2,074	2,192	5.7
Total	1,408	1,250	-11.3	8,679	9,524	9.7
Total transfer payments	7,476	8,095	8.3	50,658	56,326	11.2
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	65	100	53.8	719	768	6.8
Canada Mortgage and Housing Corporation	165	164	-0.6	1,200	1,194	-0.5
Other	136	104	-23.5	1,127	1,094	-2.9
Total	366	368	0.5	3,046	3,056	0.3
Defence	1,075	1,236	15.0	7,030	8,291	17.9
All other departments and agencies	2,643	2,562	-3.1	18,761	19,591	4.4
Total other program expenses	4,084	4,166	2.0	28,837	30,938	7.3
<b>Total program expenses</b>	11,560	12,261	6.1	79,495	87,264	9.8
<b>Public debt charges</b>	2,834	2,881	1.7	20,309	19,799	-2.5
<b>Total budgetary expenses</b>	14,394	15,142	5.2	99,804	107,063	7.3

Note: Totals may not sum due to rounding.

Table 4

## Budgetary balance and financial source/requirement

	October		April to October	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,015	2,052	8,625	9,451
<b>Non-budgetary transactions</b>				
Capital investing activities	-185	-249	-654	-978
Other investing activities	-430	-357	-1,278	-2,437
Pension and other accounts	-1,308	349	-1,665	-534
Other activities				
Accounts payable, receivables, accruals and allowances	2,384	217	-5,563	-9,762
Foreign exchange activities	487	-1,026	178	858
Amortization of tangible capital assets	247	250	1,594	1,797
Total other activities	3,118	-559	-3,791	-7,107
<b>Total non-budgetary transactions</b>	1,195	-816	-7,388	-11,056
<b>Net financial source/requirement</b>	2,210	1,236	1,237	-1,605

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	October		April to October	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Net financial source/requirement</b>	2,210	1,236	1,237	-1,605
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	552	-1,585	-8,926	-4,663
Treasury bills	1,400	1,000	1,800	-3,400
Canada Savings Bonds	-79	-68	-347	-497
Other	-1	-13	-26	-181
Total	1,872	-666	-7,499	-8,741
Foreign currency borrowings	-260	302	-1,428	-3,281
Total	1,612	-364	-8,927	-12,022
Obligations related to capital leases	-2	2	-40	78
<b>Net change in financing activities</b>	1,610	-362	-8,967	-11,944
<b>Change in cash balance</b>	3,820	874	-7,730	-13,549

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2005	October 31, 2005	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	90,473	78,779	-11,694
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	261,907	-4,663
Treasury bills	127,199	123,799	-3,400
Canada Savings Bonds	19,080	18,583	-497
Other	3,393	3,212	-181
Subtotal	416,242	407,501	-8,741
Payable in foreign currencies	16,286	13,005	-3,281
Obligations related to capital leases	2,932	3,010	78
Total unmatured debt	435,460	423,516	-11,944
Pension and other accounts			
Public sector pensions	129,579	130,903	1,324
Other employee and veteran future benefits	41,549	42,458	909
Other pension and other accounts	8,680	5,913	-2,767
Total pension and other accounts	179,808	179,274	-534
Total interest-bearing debt	615,268	602,790	-12,478
<b>Total liabilities</b>	705,741	681,569	-24,172
<b>Financial assets</b>			
Cash and accounts receivable	76,281	60,800	-15,481
Foreign exchange accounts	40,871	40,013	-858
Loans, investments and advances (net of allowances)	33,860	36,297	2,437
<b>Total financial assets</b>	151,012	137,110	-13,902
<b>Net debt</b>	554,729	544,459	-10,270
<b>Non-financial assets</b>	54,866	54,047	-819
<b>Federal debt (accumulated deficit)</b>	499,863	490,412	-9,451

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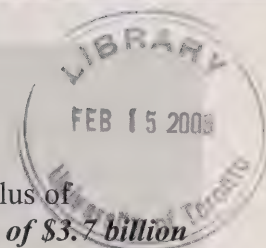
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December 2005



# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### November 2005: budgetary deficit of \$3.1 billion

There was a budgetary deficit of \$3.1 billion in November 2005, compared to a surplus of \$1.7 billion reported in November 2004. *This deficit entirely reflects an adjustment of \$3.7 billion pertaining to the first 11 months of 2005 that was made to the November results, related to the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent that were announced in the November 2005 Economic and Fiscal Update.* Absent these tax measures, there was an underlying surplus of \$0.5 billion in November 2005, down \$1.2 billion from the \$1.7-billion surplus reported in November 2004.

### April to November 2005: budgetary surplus of \$6.3 billion

For the first eight months of the 2005–06 fiscal year (April to November), the budgetary surplus is estimated at \$6.3 billion, \$4.0 billion lower than the \$10.3-billion surplus reported in the same period of 2004–05. The decline in the surplus through November reflects the impact of the inclusion in the November results of \$3.7 billion in personal income tax measures that relate to the first 11 months of 2005. Budgetary revenues were up \$4.5 billion, or 3.6 per cent. Program expenses were up \$8.9 billion, or 9.8 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/Territorial Formula Financing (TFF). Public debt charges were \$0.4 billion lower.

*These monthly financial results are only partial-year results. In particular, they do not reflect the remaining cost of the tax cuts announced in the November 2005 Economic and Fiscal Update for 2005–06, amounting to \$1.4 billion. Caution should therefore be exercised in using these results to project the outcome for the full year.*

### November 2005

There was a budgetary deficit of \$3.1 billion in November 2005, compared to a \$1.7-billion surplus reported in November 2004.

Budgetary revenues fell by \$3.6 billion, or 21.9 per cent, to \$12.7 billion.

- Personal income tax revenues declined \$3.6 billion, reflecting the inclusion in the November results of the majority of the costs of those personal income tax measures announced in the November 2005 *Economic and Fiscal Update* that pertain to the 2005 taxation year.
- Corporate income tax revenues rose \$0.3 billion, or 14.7 per cent, reflecting ongoing profitability in the corporate sector.
- Other income tax receipts—withholdings from non-residents—were up 44.1 per cent in November, reflecting increases in dividends and royalties paid to non-residents, consistent with increases in corporate profitability in 2005. This revenue source can be volatile on a monthly basis.



# The Fiscal Monitor

- Excise taxes and duties fell \$0.3 billion, or 7.1 per cent. Goods and services tax (GST) revenues declined 9.8 per cent, reflecting relatively modest growth in gross GST receipts and strong growth in GST refunds. Customs import duties were up \$60 million, while sales and excise taxes were down \$49 million. Revenues from the Air Travellers Security Charge were down \$3 million.
- Employment insurance (EI) premiums declined 3.9 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 1.5 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in November 2005 were \$12.9 billion, up \$1.2 billion, or 10.0 per cent, from November 2004, primarily due to higher transfer payments.

Transfer payments were up \$0.8 billion, or 10.8 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$14 million, or 0.4 per cent. Elderly benefits increased 3.4 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 5.9 per cent, reflecting a decline in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.5 billion, or 21.1 per cent. The increase in federal transfers in support of health and

other social programs and higher fiscal transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFE.

- Subsidies and other transfers increased by \$0.3 billion, or 17.4 per cent. This component is volatile on a monthly basis.

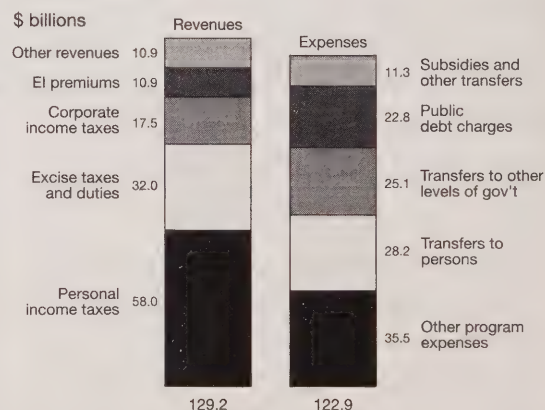
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.4 billion, or 8.6 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges increased by \$0.1 billion, or 2.8 per cent, due to an increase in the average effective interest rate on the debt.

## April to November 2005

In the first eight months of the 2005–06 fiscal year, there was a budgetary surplus of \$6.3 billion, \$4.0 billion below the \$10.3-billion surplus reported in the same period of 2004–05.

**Revenues and expenses**  
(April–November 2005)





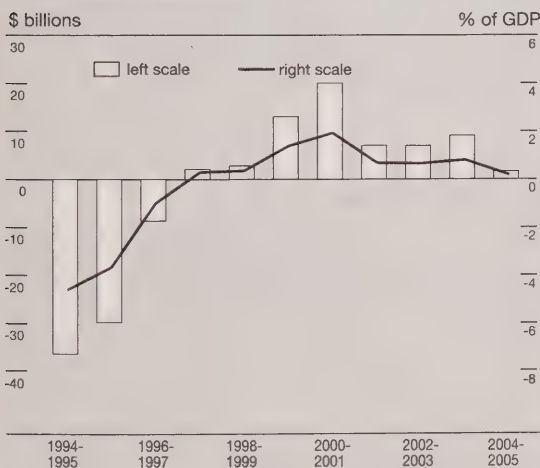
Budgetary revenues were up \$4.5 billion, or 3.6 per cent, to \$129.2 billion.

- Personal income tax revenues rose \$1.4 billion, or 2.4 per cent, reflecting the inclusion in the November results of the above-mentioned tax measures.
- Corporate income tax revenues were up \$2.6 billion, or 17.9 per cent. This gain is in part due to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004-05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004-05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through November 2004 reflecting 2003 liabilities, the year-to-date

growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received in the last four months of 2005-06.

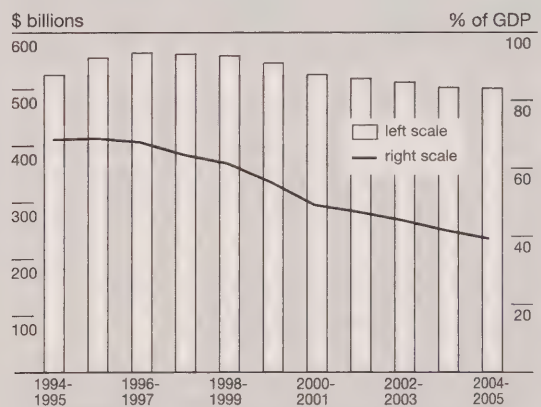
- Excise taxes and duties increased by \$1.8 billion, or 5.9 per cent. GST revenues increased \$1.7 billion, or 7.7 per cent, broadly consistent with the growth rate of retail sales of 6.6 per cent over the same period. Customs import duties were up 11.5 per cent. Sales and excise taxes were down 1.0 per cent while the Air Travellers Security Charge was down 14.4 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 0.3 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were down \$2.0 billion, or 19.4 per cent, reflecting the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



# The Fiscal Monitor

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On a year-over-year basis, program expenses in the April to November 2005 period were \$100.1 billion, up \$8.9 billion, or 9.8 per cent, from the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.4 billion.

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$6.5 billion, or 11.1 per cent.

- Transfers to persons advanced by 2.2 per cent. Elderly benefits were up 4.3 per cent while EI benefits were down 1.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$4.8 billion, or 23.4 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 10.9 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 7.5 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.9 per cent.

Public debt charges were down 1.9 per cent due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial requirement of \$1.7 billion for April to November 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the

difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$8.0 billion in the April-to-November period, up \$4.7 billion from the requirement in the same period of 2004–05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords, as well as a decrease in the source of funds arising from foreign exchange activities.

With a budgetary surplus of \$6.3 billion and a net requirement of \$8.0 billion from non-budgetary transactions, there was a financial requirement of \$1.7 billion in the first eight months of 2005–06 compared to a financial source of \$7.1 billion in the same period of 2004–05.

## **Net financing activities down \$8.5 billion**

The Government's market debt was down \$8.5 billion by the end of November 2005. To finance this reduction of market debt and the financial requirement of \$1.7 billion, the Government reduced its cash balances by \$10.1 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of November stood at \$7.0 billion.

Table 1  
Summary statement of transactions

	November		April to November	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,282	12,716	124,710	129,228
Expenses				
Program expenses	-11,686	-12,856	-91,179	-100,120
Public debt charges	-2,909	-2,990	-23,219	-22,789
Budgetary balance (deficit/surplus)	1,687	-3,130	10,312	6,319
<b>Non-budgetary transactions</b>	4,149	3,070	-3,240	-7,981
<b>Financial source/requirement</b>	5,836	-60	7,072	-1,662
<b>Net change in financing activities</b>	897	3,457	-8,068	-8,486
<b>Net change in cash balances</b>	6,733	3,397	-996	-10,148
<b>Cash balance at end of period</b>			16,254	6,974

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	November			April to November		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,359	3,718	-49.5	56,589	57,950	2.4
Corporate income tax	2,087	2,393	14.7	14,817	17,462	17.9
Other income tax revenue	238	343	44.1	2,008	2,684	33.7
Total income tax	9,684	6,454	-33.4	73,414	78,096	6.4
Excise taxes and duties						
Goods and services tax	3,331	3,005	-9.8	21,346	22,997	7.7
Customs import duties	269	329	22.3	2,087	2,327	11.5
Sales and excise taxes	845	796	-5.8	6,520	6,458	-1.0
Air Travellers Security Charge	28	25	-10.7	270	231	-14.4
Total excise taxes and duties	4,473	4,155	-7.1	30,223	32,013	5.9
Total tax revenues	14,157	10,609	-25.1	103,637	110,109	6.2
<b>Employment insurance premiums</b>	932	896	-3.9	10,872	10,902	0.3
<b>Other revenues</b>	1,193	1,211	1.5	10,201	8,217	-19.4
<b>Total budgetary revenues</b>	16,282	12,716	-21.9	124,710	129,228	3.6

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	November		Change	April to November		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,353	2,433	3.4	18,465	19,251	4.3
Employment insurance benefits	1,116	1,050	-5.9	9,167	8,990	-1.9
Total	3,469	3,483	0.4	27,632	28,241	2.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		8,433	12,667	
Canada Social Transfer	652	685		5,217	5,483	
Health Reform Transfer	125	0		1,000	0	
Canada Health and Social Transfer	23	0		23	0	
Total	1,854	2,268	22.3	14,673	18,150	23.7
Fiscal transfers	876	1,045	19.3	7,446	8,492	14.0
Canada's cities and communities	0	0	n/a	0	394	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-1,783	-1,939	8.7
Total	2,520	3,052	21.1	20,336	25,097	23.4
Subsidies and other transfers						
Agriculture	251	133	-47.0	572	738	29.0
Foreign Affairs	158	181	14.6	1,383	1,385	0.1
Health	194	173	-10.8	1,172	1,203	2.6
Human Resources Development	216	129	-40.3	722	818	13.3
Indian and Northern Development	352	562	59.7	2,891	3,239	12.0
Industry and Regional Development	143	118	-17.5	1,178	1,247	5.9
Other	194	475	144.8	2,268	2,666	17.5
Total	1,508	1,771	17.4	10,186	11,296	10.9
Total transfer payments	7,497	8,306	10.8	58,154	64,634	11.1
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	54	100	85.2	773	868	12.3
Canada Mortgage and Housing Corporation	140	172	22.9	1,340	1,366	1.9
Other	117	63	-46.2	1,244	1,154	-7.2
Total	311	335	7.7	3,357	3,388	0.9
Defence	1,080	1,249	15.6	8,111	9,540	17.6
All other departments and agencies	2,798	2,966	6.0	21,557	22,558	4.6
Total other program expenses	4,189	4,550	8.6	33,025	35,486	7.5
<b>Total program expenses</b>	11,686	12,856	10.0	91,179	100,120	9.8
<b>Public debt charges</b>	2,909	2,990	2.8	23,219	22,789	-1.9
<b>Total budgetary expenses</b>	14,595	15,846	8.6	114,398	122,909	7.4

Note: Totals may not sum due to rounding.



Table 4

## Budgetary balance and financial source/requirement

	November		April to November	
	2004	2005	2004-05	2005-06
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	1,687	-3,130	10,312	6,319
<b>Non-budgetary transactions</b>				
Capital investing activities	-180	-196	-836	-1,171
Other investing activities	-156	-294	-1,434	-2,731
Pension and other accounts	-432	-16	-2,100	-549
Other activities				
Accounts payable, receivables, accruals and allowances	827	3,655	-4,733	-6,107
Foreign exchange activities	3,866	-314	4,045	544
Amortization of tangible capital assets	224	235	1,818	2,033
Total other activities	4,917	3,576	1,130	-3,530
<b>Total non-budgetary transactions</b>	4,149	3,070	-3,240	-7,981
<b>Net financial source/requirement</b>	5,836	-60	7,072	-1,662

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	November		April to November	
	2004	2005	2004-05	2005-06
(\$ millions)				
<b>Net financial source/requirement</b>	5,836	-60	7,072	-1,662
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,005	3,253	-7,921	-1,410
Treasury bills	5,050	900	6,850	-2,500
Canada Savings Bonds	-1,357	-448	-1,704	-945
Other	-1	-15	-27	-196
Total	4,697	3,690	-2,802	-5,051
Foreign currency borrowings	-3,831	-218	-5,257	-3,498
Total	866	3,472	-8,059	-8,549
Obligations related to capital leases	31	-15	-9	63
<b>Net change in financing activities</b>	897	3,457	-8,068	-8,486
<b>Change in cash balance</b>	6,733	3,397	-996	-10,148

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2005	November 30, 2005	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	90,473	84,319	-6,154
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	265,160	-1,410
Treasury bills	127,199	124,699	-2,500
Canada Savings Bonds	19,080	18,135	-945
Other	3,393	3,197	-196
Subtotal	416,242	411,191	-5,051
Payable in foreign currencies	16,286	12,788	-3,498
Obligations related to capital leases	2,932	2,995	63
Total unmaturred debt	435,460	426,974	-8,486
Pension and other accounts			
Public sector pensions	129,579	131,218	1,639
Other employee and veteran future benefits	41,549	42,588	1,039
Other pension and other accounts	8,680	5,453	-3,227
Total pension and other accounts	179,808	179,259	-549
Total interest-bearing debt	615,268	606,233	-9,035
<b>Total liabilities</b>	705,741	690,552	-15,189
<b>Financial assets</b>			
Cash and accounts receivable	76,281	66,086	-10,195
Foreign exchange accounts	40,871	40,327	-544
Loans, investments and advances (net of allowances)	33,860	36,591	2,731
<b>Total financial assets</b>	151,012	143,004	-8,008
<b>Net debt</b>	554,729	547,548	-7,181
<b>Non-financial assets</b>	54,866	54,004	-862
<b>Federal debt (accumulated deficit)</b>	499,863	493,544	-6,319

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January 2006

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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2005: budgetary surplus of \$1.0 billion

There was a budgetary surplus of \$1.0 billion in December 2005, up \$0.8 billion from December 2004. Total budgetary revenues rose \$0.7 billion or 4.5 per cent, reflecting strong gains in personal income tax receipts, which were \$0.7 billion or 8.3 per cent higher. Program expenses were relatively unchanged in December, rising \$0.1 billion or 0.4 per cent. Public debt charges were \$0.1 billion lower. The December results incorporate \$0.3 billion in tax reduction measures—the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent—which pertain to the month.

### April to December 2005: budgetary surplus of \$7.3 billion

For the first nine months of the 2005–06 fiscal year (April to December), the budgetary surplus is estimated at \$7.3 billion, \$3.2 billion lower than the \$10.5-billion surplus reported in the same period of 2004–05. The decline in the surplus through December reflects in part the inclusion of the estimated \$4.0-billion cost of personal income tax measures, noted above, pertaining to the full 2005 tax year. Budgetary revenues were up \$5.2 billion or 3.7 per cent. Program expenses were up \$9.0 billion or 8.6 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/Territorial Formula Financing (TFF). Public debt charges were \$0.5 billion lower.

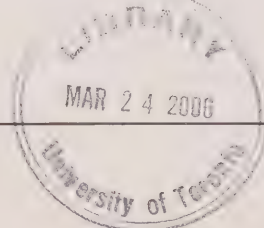
### December 2005

There was a budgetary surplus of \$1.0 billion in December 2005, up \$0.8 billion from December 2004.

Budgetary revenues rose \$0.7 billion or 4.5 per cent to \$16.3 billion.

- Personal income tax receipts were up \$0.7 billion or 8.3 per cent. Receipts in December are net of the \$0.3-billion cost of the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent that pertain to the month.

- Corporate income tax revenues fell \$0.2 billion or 6.3 per cent, reflecting weaker gross receipts and lower settlement payments relative to December 2004.
- Other income tax receipts—withholdings from non-residents—increased significantly in December, reflecting increases in dividends and other payments to non-residents.
- Excise taxes and duties fell \$0.1 billion or 2.4 per cent. Goods and services tax (GST) revenues declined 2.2 per cent, reflecting





# The Fiscal Monitor

relatively weak growth in gross GST receipts. Customs import duties were up \$33 million, while sales and excise taxes were down \$63 million. Revenues from the Air Travellers Security Charge were down \$2 million.

- Employment insurance (EI) premiums declined 4.5 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 13.4 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in December 2005 were \$12.8 billion, up just \$0.1 billion or 0.4 per cent from December 2004. Transfers to other levels of government were up strongly, but lower operating expenses of departments and agencies offset this increase.

Transfer payments were up \$0.7 billion or 9.3 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$28 million or 0.8 per cent. Elderly benefits increased 3.1 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased 3.8 per cent, reflecting a decline in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.7 billion or 27.2 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal

transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFF.

- Subsidies and other transfers declined by 1.0 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses of departments and agencies, including National Defence. On a year-over-year basis, these expenses fell \$0.7 billion or 13.4 per cent, largely reflecting lower spending by National Defence because of a one-time adjustment for Defence inventory and capital assets in December 2004.

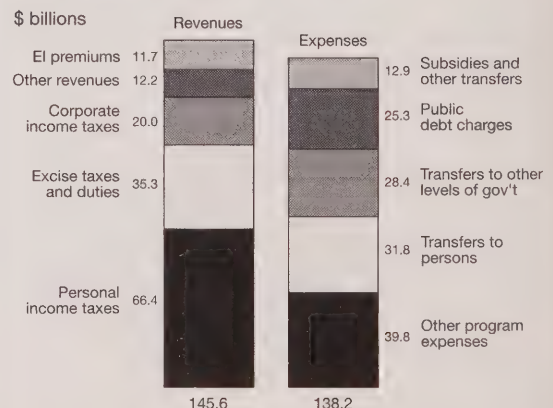
Public debt charges decreased by \$0.1 billion or 4.4 per cent due to a decrease in the average effective interest rate on the debt.

## April to December 2005

In the first nine months of the 2005–06 fiscal year, there was a budgetary surplus of \$7.3 billion, \$3.2 billion below the \$10.5-billion surplus reported in the same period of 2004–05. This decline reflects in part the inclusion of the costs of the above-mentioned tax measures.

### Revenues and expenses

(April–December 2005)



Budgetary revenues were up \$5.2 billion or 3.7 per cent to \$145.6 billion.

- Personal income tax revenues rose \$2.0 billion or 3.1 per cent.
- Corporate income tax revenues were up \$2.5 billion or 14.2 per cent, reflecting gains in corporate profitability in 2005.
- Excise taxes and duties rose \$1.7 billion or 5.1 per cent. GST revenues increased \$1.6 billion or 6.8 per cent, broadly consistent with the growth rate of retail sales of 6.7 per cent over the same period. Customs import duties were up 11.8 per cent. Sales and excise taxes were down 1.6 per cent, while the Air Travellers Security Charge was down 13.8 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were down 0.1 per cent, as the impact of the reduction in premium rates in January 2005 more than offset the increase in the number of people employed.

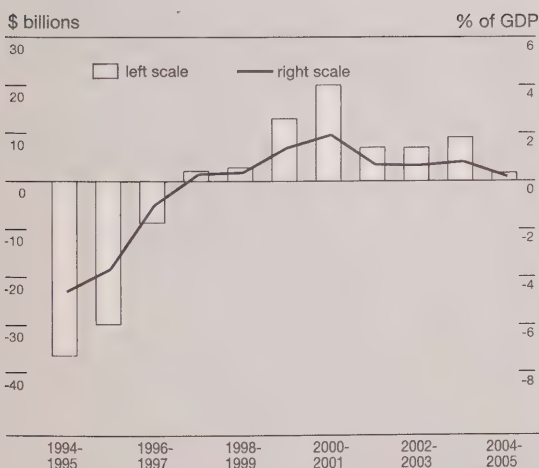
- Other revenues were down \$1.9 billion or 17.5 per cent, reflecting the impact of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Program expenses in the April to December 2005 period were \$112.9 billion, up \$9.0 billion or 8.6 per cent from the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.5 billion.

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$7.2 billion or 10.9 per cent.

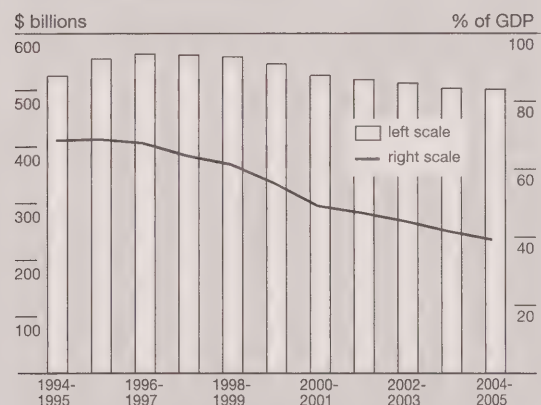
- Transfers to persons advanced by 2.0 per cent. Elderly benefits were up 4.1 per cent while EI benefits were down 2.2 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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- Transfers to other levels of government were up \$5.5 billion or 23.8 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 9.3 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 4.7 per cent.

Public debt charges were down 2.1 per cent due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial source of \$0.1 billion for April to December 2005**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$7.2 billion in the April-to-December period, up \$3.1 billion from the requirement in the same period of 2004–05. This increase largely reflects the sale of the Government's remaining shares in Petro-Canada in September 2004, as well as a decrease in the source of funds arising from foreign exchange activities.

With a budgetary surplus of \$7.3 billion and a net requirement of \$7.2 billion from non-budgetary transactions, there was a financial source of \$0.1 billion in the first nine months of 2005–06 compared to a financial source of \$6.4 billion in the same period of 2004–05.

## **Net financing activities down \$12.7 billion**

The Government used this financial source of \$0.1 billion and a reduction in its cash balances of \$12.7 billion to reduce its market debt by \$12.7 billion by the end of December 2005, largely through a reduction of marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of December stood at \$4.5 billion.



Table 1  
Summary statement of transactions

	December		April to December	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,637	16,336	140,348	145,563
Expenses				
Program expenses	-12,768	-12,818	-103,949	-112,937
Public debt charges	-2,639	-2,522	-25,858	-25,310
Budgetary balance (deficit/surplus)	230	996	10,541	7,316
<b>Non-budgetary transactions</b>	-898	730	-4,133	-7,247
<b>Financial source/requirement</b>	-668	1,726	6,408	69
<b>Net change in financing activities</b>	-11,562	-4,242	-19,630	-12,730
<b>Net change in cash balances</b>	-12,230	-2,516	-13,222	-12,661
<b>Cash balance at end of period</b>			4,024	4,458

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	December			April to December		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,835	8,486	8.3	64,424	66,435	3.1
Corporate income tax	2,680	2,512	-6.3	17,497	19,974	14.2
Other income tax revenue	284	530	86.6	2,292	3,214	40.2
Total income tax	10,799	11,528	6.8	84,213	89,623	6.4
Excise taxes and duties						
Goods and services tax	2,208	2,160	-2.2	23,554	25,157	6.8
Customs import duties	232	265	14.2	2,319	2,592	11.8
Sales and excise taxes	875	812	-7.2	7,394	7,272	-1.6
Air Travellers Security Charge	28	26	-7.1	298	257	-13.8
Total excise taxes and duties	3,343	3,263	-2.4	33,565	35,278	5.1
Total tax revenues	14,142	14,791	4.6	117,778	124,901	6.0
<b>Employment insurance premiums</b>	840	802	-4.5	11,713	11,704	-0.1
<b>Other revenues</b>	655	743	13.4	10,857	8,958	-17.5
<b>Total budgetary revenues</b>	15,637	16,336	4.5	140,348	145,563	3.7

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	December		Change	April to December		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,367	2,441	3.1	20,832	21,693	4.1
Employment insurance benefits	1,200	1,154	-3.8	10,367	10,144	-2.2
Total	3,567	3,595	0.8	31,199	31,837	2.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		9,488	14,250	
Canada Social Transfer	652	685		5,869	6,169	
Health Reform Transfer	125	0		1,125	0	
Canada Health and Social Transfer	-23	0		0	0	
Total	1,808	2,268	25.4	16,482	20,419	23.9
Fiscal transfers	1,007	1,044	3.7	8,454	9,537	12.8
Canada's cities and communities	0	262	n/a	0	656	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-1,993	-2,200	10.4
Total	2,605	3,313	27.2	22,943	28,412	23.8
Subsidies and other transfers						
Agriculture	108	178	64.8	680	916	34.7
Foreign Affairs	316	215	-32.0	1,699	1,600	-5.8
Health	87	136	56.3	1,259	1,340	6.4
Human Resources Development	64	94	46.9	786	912	16.0
Indian and Northern Development	380	380	0.0	3,271	3,619	10.6
Industry and Regional Development	213	205	-3.8	1,391	1,452	4.4
Other	410	354	-13.6	2,678	3,019	12.7
Total	1,578	1,562	-1.0	11,764	12,858	9.3
Total transfer payments	7,750	8,470	9.3	65,906	73,107	10.9
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	91	110	20.9	864	978	13.2
Canada Mortgage and Housing Corporation	175	170	-2.9	1,515	1,536	1.4
Other	285	196	-31.2	1,530	1,351	-11.7
Total	551	476	-13.6	3,909	3,865	-1.1
Defence	1,640	1,226	-25.2	9,749	10,766	10.4
All other departments and agencies	2,827	2,646	-6.4	24,385	25,199	3.3
Total other program expenses	5,018	4,348	-13.4	38,043	39,830	4.7
<b>Total program expenses</b>	12,768	12,818	0.4	103,949	112,937	8.6
<b>Public debt charges</b>	2,639	2,522	-4.4	25,858	25,310	-2.1
<b>Total budgetary expenses</b>	15,407	15,340	-0.4	129,807	138,247	6.5

Note: Totals may not sum due to rounding.

Table 4

## Budgetary balance and financial source/requirement

	December		April to December	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	230	996	10,541	7,316
<b>Non-budgetary transactions</b>				
Capital investing activities	-169	-343	-1,003	-1,514
Other investing activities	50	-45	-1,383	-2,776
Pension and other accounts	691	239	-1,408	-308
Other activities				
Accounts payable, receivables, accruals and allowances	-1,894	-1,166	-6,626	-7,271
Foreign exchange activities	-86	1,769	3,959	2,313
Amortization of tangible capital assets	510	276	2,328	2,309
Total other activities	-1,470	879	-339	-2,649
<b>Total non-budgetary transactions</b>	-898	730	-4,133	-7,247
<b>Net financial source/requirement</b>	-668	1,726	6,408	69

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	December		April to December	
	2004	2005	2004-05	2005-06
	(\$ millions)			
<b>Net financial source/requirement</b>	-668	1,726	6,408	69
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-7,989	-6,582	-15,911	-7,992
Treasury bills	-3,200	2,400	3,650	-100
Canada Savings Bonds	-165	-423	-1,868	-1,368
Other	0	-8	-27	-205
Total	-11,354	-4,613	-14,156	-9,665
Foreign currency borrowings	-285	368	-5,542	-3,131
Total	-11,639	-4,245	-19,698	-12,796
Obligations related to capital leases	77	3	68	66
<b>Net change in financing activities</b>	-11,562	-4,242	-19,630	-12,730
<b>Change in cash balance</b>	-12,230	-2,516	-13,222	-12,661

Note: Totals may not sum due to rounding.



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2005	December 31, 2005	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	90,473	80,245	-10,228
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	258,578	-7,992
Treasury bills	127,199	127,099	-100
Canada Savings Bonds	19,080	17,712	-1,368
Other	3,393	3,188	-205
Subtotal	416,242	406,577	-9,665
Payable in foreign currencies	16,286	13,155	-3,131
Obligations related to capital leases	2,932	2,998	66
Total unmaturing debt	435,460	422,730	-12,730
Pension and other accounts			
Public sector pensions	129,579	131,268	1,689
Other employee and veteran future benefits	41,549	42,719	1,170
Other pension and other accounts	8,680	5,513	-3,167
Total pension and other accounts	179,808	179,500	-308
Total interest-bearing debt	615,268	602,230	-13,038
<b>Total liabilities</b>	705,741	682,475	-23,266
<b>Financial assets</b>			
Cash and accounts receivable	76,281	60,663	-15,618
Foreign exchange accounts	40,871	38,558	-2,313
Loans, investments and advances (net of allowances)	33,860	36,636	2,776
<b>Total financial assets</b>	151,012	135,857	-15,155
<b>Net debt</b>	554,729	546,618	-8,111
<b>Non-financial assets</b>	54,866	54,071	-795
<b>Federal debt (accumulated deficit)</b>	499,863	492,547	-7,316

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February 2006

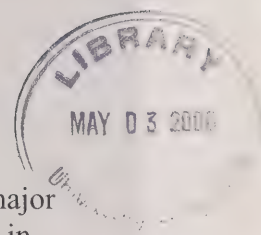
# The Fiscal Monitor

A Publication of the Department of Finance Canada

## Highlights

### January 2006: budgetary surplus of \$1.7 billion

There was a budgetary surplus of \$1.7 billion in January 2006, down \$0.7 billion from January 2005. Total budgetary revenues rose \$1.3 billion, reflecting solid growth in all major tax streams. Program expenses were up \$2.2 billion, reflecting the impact of \$0.8 billion in assistance for grain and oilseed producers and \$0.6 billion related to the Energy Cost Benefit. Public debt charges were \$0.2 billion lower.



### April 2005 to January 2006: budgetary surplus of \$9.0 billion

For the first 10 months of the 2005–06 fiscal year (April to January), the budgetary surplus is estimated at \$9.0 billion, down \$3.9 billion from the \$12.9-billion surplus reported in the same period of 2004–05. Budgetary revenues were up \$6.5 billion or 4.1 per cent. This gain is net of the \$4.0-billion cost of the personal income tax reduction measures announced in the November 2005 *Economic and Fiscal Update* pertaining to the 2005 tax year. Program expenses were up \$11.1 billion or 9.5 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/Territorial Formula Financing (TFF). Public debt charges were \$0.7 billion lower.

### January 2006

There was a budgetary surplus of \$1.7 billion in January 2006, down \$0.7 billion from January 2005.

Budgetary revenues rose \$1.3 billion or 6.9 per cent to \$20.2 billion.

- Personal income tax receipts were up \$1.0 billion or 11.5 per cent, primarily due to stronger source deductions from employment income.
- Corporate income tax revenues rose \$0.2 billion or 10.2 per cent, reflecting ongoing profitability in the corporate sector.
- Other income tax receipts—withholdings from non-residents—rose 14.7 per cent.

- Excise taxes and duties rose \$0.2 billion or 5.3 per cent, largely due to a \$0.2-billion or 7.1-per-cent increase in goods and services tax (GST) revenues. Customs import duties were up \$52 million, while sales and excise taxes were down \$49 million. Revenues from the Air Travellers Security Charge were down \$6 million.
- Employment insurance (EI) premiums declined by 11.3 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.



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- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down 3.0 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in January 2006 were \$15.8 billion, up \$2.2 billion or 15.8 per cent from January 2005.

Transfer payments were up \$1.5 billion or 18.1 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$84 million or 2.1 per cent. Elderly benefits increased 5.5 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased 2.8 per cent, reflecting a decline in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.5 billion or 20.6 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFF.
- Subsidies and other transfers increased by \$0.9 billion or 46.7 per cent, largely reflecting transfers under the Grains and Oilseeds Payment Program (Agriculture and Agri-Food Canada) and the Energy Cost Benefit (Canada Revenue Agency and Human Resources and Social Development).

Other program expenses consist of transfers to Crown corporations, operating expenses for departments and agencies including National Defence, and the ongoing assessment of the Government's liabilities. These expenses increased by \$0.6 billion or 12.0 per cent.

Public debt charges decreased by \$0.2 billion or 6.3 per cent due to a decrease in the average effective interest rate on the debt.

## April 2005 to January 2006

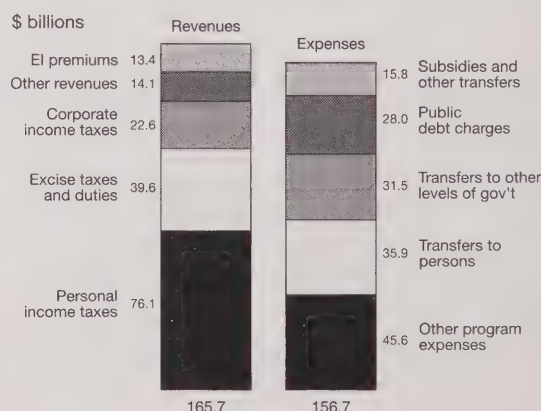
In the first 10 months of the 2005–06 fiscal year, there was a budgetary surplus of \$9.0 billion, \$3.9 billion below the \$12.9-billion surplus reported in the same period of 2004–05.

Budgetary revenues were up \$6.5 billion or 4.1 per cent to \$165.7 billion.

- Personal income tax revenues rose \$3.0 billion or 4.1 per cent. This gain is net of the \$4.0-billion cost of the personal income tax reduction measures announced in the November 2005 *Economic and Fiscal Update* pertaining to the 2005 tax year.
- Corporate income tax revenues were up \$2.7 billion or 13.7 per cent, reflecting gains in corporate profitability in 2005.

## Revenues and expenses

(April 2005-January 2006)





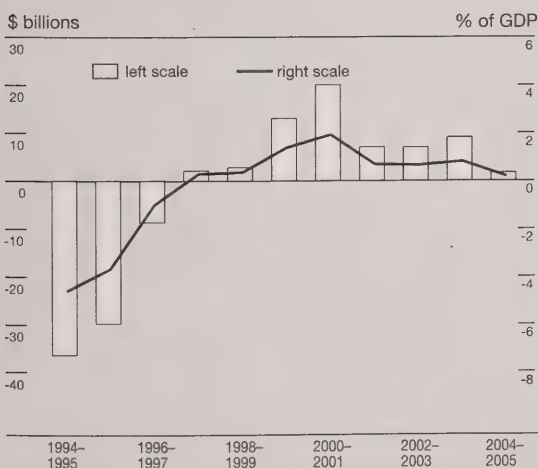
- Other income tax revenues increased by \$1.0 billion or 34.9 per cent, reflecting increased dividend payments to non-residents.
- Excise taxes and duties rose \$1.9 billion or 5.1 per cent. GST revenues increased \$1.8 billion or 6.8 per cent, broadly consistent with the growth rate of retail sales of 6.6 per cent over the same period. Customs import duties were up 12.9 per cent. Sales and excise taxes were down 2.1 per cent, while the Air Travellers Security Charge was down 14.2 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were down 1.6 per cent, as the impact of the reduction in the premium rate in January 2005 more than offset the impact of higher employment and wages and salaries.
- Other revenues were down \$1.9 billion or 16.0 per cent, reflecting the impact of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Program expenses in the April 2005 to January 2006 period were \$128.7 billion, up \$11.1 billion or 9.5 per cent over the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.7 billion.

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$8.7 billion or 11.7 per cent.

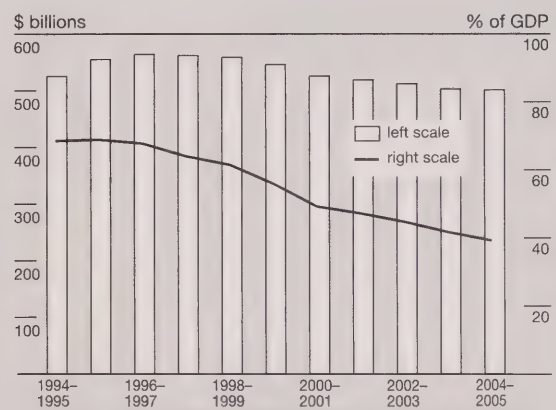
- Transfers to persons advanced by 2.1 per cent. Elderly benefits were up 4.3 per cent while EI benefits were down 2.2 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$6.0 billion or 23.5 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.

## Budgetary balance



Sources: Department of Finance Canada and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance Canada and Statistics Canada.

# The Fiscal Monitor

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- Subsidies and other transfers increased by 14.7 per cent, reflecting the impact of measures from recent budgets as well as transfers under the Grains and Oilseeds Payment Program and the Energy Cost Benefit.

Other program expenses increased by 5.6 per cent.

Public debt charges were down 2.5 per cent due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial source of \$3.8 billion for April 2005 to January 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.2 billion in the April-to-January period, up \$0.2 billion from the requirement in the same period of 2004–05.

With a budgetary surplus of \$9.0 billion and a net requirement of \$5.2 billion from non-budgetary transactions, there was a financial source of \$3.8 billion in the first 10 months of 2005–06 compared to a financial source of \$7.9 billion in the same period of 2004–05.

## **Net financing activities down \$18.2 billion**

The Government used this financial source of \$3.8 billion and a reduction in its cash balances of \$14.4 billion to reduce its market debt by \$18.2 billion by the end of January 2006, largely through a reduction of marketable bonds and treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of January stood at \$2.7 billion.

Table 1

## Summary statement of transactions

	January		April to January	
	2005	2006	2004-05	2005-06
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	18,856	20,150	159,202	165,713
Expenses				
Program expenses	-13,638	-15,793	-117,587	-128,729
Public debt charges	-2,857	-2,676	-28,714	-27,986
Budgetary balance (deficit/surplus)	2,361	1,681	12,901	8,998
<b>Non-budgetary transactions</b>	-880	2,023	-5,014	-5,226
<b>Financial source/requirement</b>	1,481	3,704	7,887	3,772
<b>Net change in financing activities</b>	-2,027	-5,434	-21,657	-18,163
<b>Net change in cash balances</b>	-546	-1,730	-13,770	-14,391
<b>Cash balance at end of period</b>			3,480	2,730

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	January			April to January		
	2005	2006	Change	2004-05	2005-06	Change
	(\$ millions)			(\$ millions)		
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,677	9,673	11.5	73,101	76,108	4.1
Corporate income tax	2,358	2,599	10.2	19,854	22,573	13.7
Other income tax revenue	607	696	14.7	2,899	3,910	34.9
Total income tax	11,642	12,968	11.4	95,854	102,591	7.0
Excise taxes and duties						
Goods and services tax	3,125	3,346	7.1	26,679	28,502	6.8
Customs import duties	192	244	27.1	2,511	2,836	12.9
Sales and excise taxes	759	710	-6.5	8,154	7,983	-2.1
Air Travellers Security Charge	28	22	-21.4	325	279	-14.2
Total excise taxes and duties	4,104	4,322	5.3	37,669	39,600	5.1
Total tax revenues	15,746	17,290	9.8	133,523	142,191	6.5
<b>Employment insurance premiums</b>	1,891	1,677	-11.3	13,604	13,381	-1.6
<b>Other revenues</b>	1,219	1,183	-3.0	12,075	10,141	-16.0
<b>Total budgetary revenues</b>	18,856	20,150	6.9	159,202	165,713	4.1

Note: Totals may not sum due to rounding.



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Table 3

## Budgetary expenses

	January		Change	April to January		Change
	2005	2006		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,362	2,491	5.5	23,194	24,184	4.3
Employment insurance benefits	1,615	1,570	-2.8	11,982	11,714	-2.2
Total	3,977	4,061	2.1	35,176	35,898	2.1
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583	50.2	10,542	15,833	50.2
Canada Social Transfer	652	685	5.1	6,521	6,854	5.1
Health Reform Transfer	125	0	n/a	1,250	0	n/a
Total	1,831	2,268	23.9	18,313	22,687	23.9
Fiscal transfers	933	1,059	13.5	9,387	10,597	12.9
Canada's cities and communities	0	14	n/a	0	670	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-2,203	-2,461	11.7
Total	2,554	3,080	20.6	25,497	31,493	23.5
Subsidies and other transfers						
Agriculture	146	777	432.2	826	1,693	105.0
Foreign Affairs	310	333	7.4	2,010	1,933	-3.8
Health	234	207	-11.5	1,494	1,547	3.5
Human Resources Development	264	232	-12.1	1,050	1,144	9.0
Indian and Northern Development	347	368	6.1	3,618	3,986	10.2
Industry and Regional Development	100	159	59.0	1,491	1,610	8.0
Other	593	850	43.4	3,269	3,871	18.4
Total	1,994	2,926	46.7	13,758	15,784	14.7
Total transfer payments	8,525	10,067	18.1	74,431	83,175	11.7
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	108	50	-53.7	972	1,028	5.8
Canada Mortgage and Housing Corporation	170	171	0.6	1,685	1,707	1.3
Other	200	161	-19.5	1,731	1,511	-12.7
Total	478	382	-20.1	4,388	4,246	-3.2
Defence	1,156	1,221	5.6	10,905	11,987	9.9
All other departments and agencies	3,479	4,123	18.5	27,863	29,321	5.2
Total other program expenses	5,113	5,726	12.0	43,156	45,554	5.6
<b>Total program expenses</b>	13,638	15,793	15.8	117,587	128,729	9.5
<b>Public debt charges</b>	2,857	2,676	-6.3	28,714	27,986	-2.5
<b>Total budgetary expenses</b>	16,495	18,469	12.0	146,301	156,715	7.1

Note: Totals may not sum due to rounding.

Table 4

## Budgetary balance and financial source/requirement

	January		April to January	
	2005	2006	2004-05	2005-06
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	2,361	1,681	12,901	8,998
<b>Non-budgetary transactions</b>				
Capital investing activities	-86	-300	-1,088	-1,815
Other investing activities	-531	316	-1,914	-2,460
Pension and other accounts	-565	206	-1,974	-103
Other activities				
Accounts payable, receivables, accruals and allowances	928	1,277	-5,699	-5,994
Foreign exchange activities	-868	284	3,091	2,597
Amortization of tangible capital assets	242	240	2,570	2,549
Total other activities	302	1,801	-38	-848
<b>Total non-budgetary transactions</b>	-880	2,023	-5,014	-5,226
<b>Net financial source/requirement</b>	1,481	3,704	7,887	3,772

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	January		April to January	
	2005	2006	2004-05	2005-06
	(\$ millions)			
<b>Net financial source/requirement</b>	1,481	3,704	7,887	3,772
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	387	221	-15,523	-7,771
Treasury bills	-2,450	-5,100	1,200	-5,200
Canada Savings Bonds	-96	-103	-1,964	-1,471
Other	0	-19	-28	-223
Total	-2,159	-5,001	-16,315	-14,665
Foreign currency borrowings	69	-428	-5,473	-3,559
Total	-2,090	-5,429	-21,788	-18,224
Obligations related to capital leases	63	-5	131	61
<b>Net change in financing activities</b>	-2,027	-5,434	-21,657	-18,163
<b>Change in cash balance</b>	-546	-1,730	-13,770	-14,391

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2005	January 31, 2006	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	90,473	84,573	-5,900
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	258,799	-7,771
Treasury bills	127,199	121,999	-5,200
Canada Savings Bonds	19,080	17,609	-1,471
Other	3,393	3,170	-223
Subtotal	416,242	401,577	-14,665
Payable in foreign currencies	16,286	12,727	-3,559
Obligations related to capital leases	2,932	2,993	61
Total unmaturred debt	435,460	417,297	-18,163
Pension and other accounts			
Public sector pensions	129,579	131,281	1,702
Other employee and veteran future benefits	41,549	42,848	1,299
Other pension and other accounts	8,680	5,576	-3,104
Total pension and other accounts	179,808	179,705	-103
Total interest-bearing debt	615,268	597,002	-18,266
<b>Total liabilities</b>	705,741	681,575	-24,166
<b>Financial assets</b>			
Cash and accounts receivable	76,281	61,984	-14,297
Foreign exchange accounts	40,871	38,274	-2,597
Loans, investments and advances (net of allowances)	33,860	36,320	2,460
<b>Total financial assets</b>	151,012	136,578	-14,434
<b>Net debt</b>	554,729	544,997	-9,732
<b>Non-financial assets</b>	54,866	54,132	-734
<b>Federal debt (accumulated deficit)</b>	499,863	490,865	-8,998

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March 2006



# The Fiscal Monitor

A Publication of the Department of Finance Canada

## Highlights

### February 2006: budgetary surplus of \$4.1 billion

There was a budgetary surplus of \$4.1 billion in February 2006, down \$1.7 billion from February 2005. Total budgetary revenues were \$0.1 billion lower, primarily due to a \$0.6-billion decline in corporate income tax revenues. This decline is primarily due to an increase in refunds to the non-energy manufacturing sector. Program expenses were up \$1.6 billion, primarily reflecting higher transfer payments to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges were flat compared to the same month last year.

### April 2005 to February 2006: budgetary surplus of \$13.1 billion

For the first 11 months of the 2005–06 fiscal year (April to February), the budgetary surplus is estimated at \$13.1 billion, down \$5.6 billion from the \$18.7-billion surplus reported in the same period of 2004–05. Budgetary revenues were up \$6.4 billion or 3.6 per cent. This gain is net of the \$4.7-billion cost of the personal income tax reduction measures pertaining to the 2005 tax year and the first two months of this year. Program expenses were up \$12.7 billion or 9.9 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.7 billion lower. A full update of the fiscal projections for the year as a whole, including the year-end accrual adjustments, will be provided in the budget.

### February 2006

There was a budgetary surplus of \$4.1 billion in February 2006, down \$1.7 billion from February 2005.

Budgetary revenues declined by \$0.1 billion, or 0.5 per cent, to \$19.7 billion.

- Personal income tax receipts were up \$0.3 billion or 4.7 per cent.
- Corporate income tax revenues were down \$0.6 billion or 9.6 per cent, largely due to an increase in refunds to the non-energy manufacturing sector, reflecting weak profitability in that sector in 2005. In addition, corporate year-end settlement

payments were weaker than in February last year, due in part to lower settlement payments from the non-energy manufacturing sector.

- Other income tax receipts—withholdings from non-residents—rose \$59 million or 16.8 per cent in February.
- Excise taxes and duties rose \$0.2 billion or 5.0 per cent due to a \$0.3-billion increase in goods and services tax (GST) revenues. Customs import duties were down \$38 million, while sales and excise taxes were down \$78 million. Revenues from the Air Travellers Security Charge were up \$5 million.



# The Fiscal Monitor

- Employment insurance (EI) premiums declined by 4.8 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, were down 3.7 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in February 2006 were \$12.9 billion, up \$1.6 billion or 13.9 per cent from February 2005, primarily due to higher transfer payments.

Transfer payments were up \$1.3 billion or 16.0 per cent.

- Transfers to persons, consisting of elderly and EI benefits, were up \$61 million or 1.6 per cent. Elderly benefits increased 5.4 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased 4.8 per cent, reflecting a decline in regular benefits.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.8 billion or 35.3 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFF.
- Subsidies and other transfers increased \$0.4 billion or 21.9 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased \$0.3 billion or 9.4 per cent.

Public debt charges increased marginally, by \$9 million.

## April 2005 to February 2006

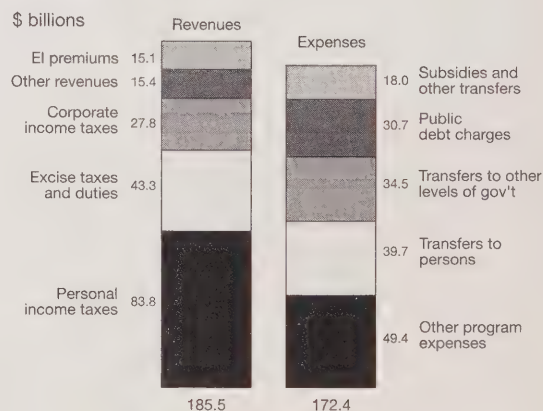
In the first 11 months of the 2005–06 fiscal year, there was a budgetary surplus of \$13.1 billion, \$5.6 billion below the \$18.7-billion surplus reported in the same period of 2004–05.

Budgetary revenues increased \$6.4 billion or 3.6 per cent to \$185.5 billion.

- Personal income tax revenues rose \$3.4 billion or 4.2 per cent. This gain is net of the \$4.7-billion cost of the personal income tax reduction measures pertaining to the 2005 tax year and the first two months of this year.
- Corporate income tax revenues were up \$2.2 billion or 8.4 per cent, reflecting gains in corporate profitability in 2005.

## Revenues and expenses

(April 2005-February 2006)



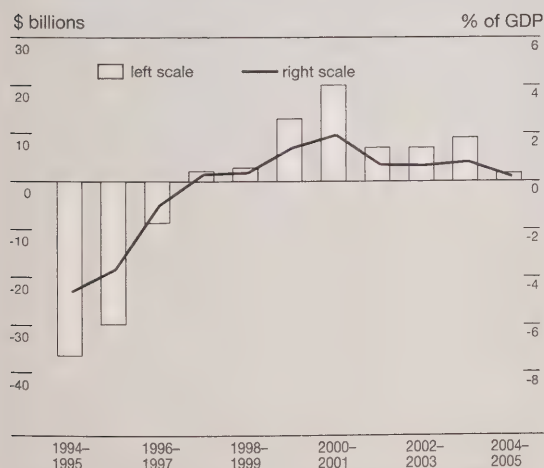
- Other income tax revenues increased \$1.1 billion or 32.9 per cent, reflecting increased dividend payments to non-residents.
- Excise taxes and duties rose \$2.1 billion or 5.1 per cent. GST revenues increased \$2.1 billion or 7.2 per cent, broadly consistent with the growth rate of retail sales of 6.9 per cent over the same period. Customs import duties were up 10.3 per cent. Sales and excise taxes were down 2.8 per cent, while the Air Travellers Security Charge was down 11.2 per cent, reflecting reductions in the charge, effective April 1, 2005.
- EI premiums were down 2.0 per cent, as the impact of the reduction in the premium rate in January 2005 and January 2006 more than offset the impact of higher employment and wages and salaries.
- Other revenues were down \$2.0 billion or 15.1 per cent, reflecting the impact of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Program expenses in the April 2005 to February 2006 period were \$141.7 billion, up \$12.7 billion or 9.9 per cent from the same period of 2004–05, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.7 billion.

Transfer payments, which account for nearly two-thirds of total program expenses, increased \$10.0 billion or 12.2 per cent.

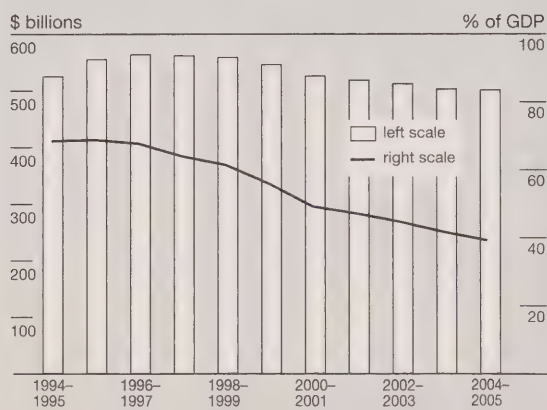
- Transfers to persons advanced by 2.0 per cent. Elderly benefits were up 4.4 per cent while EI benefits were down 2.5 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$6.8 billion or 24.5 per cent, reflecting the impact of the 2004 agreements on health care and the new framework for equalization and TFF.

## Budgetary balance



Sources: Department of Finance Canada and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance Canada and Statistics Canada.



- Subsidies and other transfers increased 15.6 per cent, reflecting the impact of measures from recent budgets as well as transfers under the Grains and Oilseeds Payment Program and the Energy Cost Benefit.

Other program expenses increased 5.8 per cent.

Public debt charges were down 2.3 per cent compared to the same period last year, due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial source of \$5.4 billion for April 2005 to February 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of

accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$7.6 billion in the April-to-February period, down \$2.6 billion from the requirement in the same period of 2004–05.

With a budgetary surplus of \$13.1 billion and a net requirement of \$7.6 billion from non-budgetary transactions, there was a financial source of \$5.4 billion in the first 11 months of 2005–06 compared to a financial source of \$8.5 billion in the same period of 2004–05.

## **Net financing activities down \$18.5 billion**

The Government used this financial source of \$5.4 billion and a reduction in its cash balances of \$13.1 billion to reduce its market debt by \$18.5 billion by the end of February 2006, largely through a reduction of marketable bonds and treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of February stood at \$4.0 billion.

Table 1

## Summary statement of transactions

	February		April to February	
	2005	2006	2004-05	2005-06
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	19,840	19,743	179,044	185,456
Expenses				
Program expenses	-11,348	-12,928	-128,936	-141,658
Public debt charges	-2,722	-2,731	-31,436	-30,717
Budgetary balance (deficit/surplus)	5,770	4,084	18,672	13,081
<b>Non-budgetary transactions</b>	-5,198	-2,416	-10,212	-7,638
<b>Financial source/requirement</b>	572	1,668	8,460	5,443
<b>Net change in financing activities</b>	3,221	-348	-18,437	-18,513
<b>Net change in cash balances</b>	3,793	1,320	-9,977	-13,070
<b>Cash balance at end of period</b>			7,273	4,048

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	February		Change	April to February		Change
	2005	2006		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,372	7,717	4.7	80,474	83,825	4.2
Corporate income tax	5,780	5,225	-9.6	25,635	27,799	8.4
Other income tax revenue	352	411	16.8	3,251	4,321	32.9
Total income tax	13,504	13,353	-1.1	109,360	115,945	6.0
Excise taxes and duties						
Goods and services tax	2,542	2,830	11.3	29,221	31,333	7.2
Customs import duties	275	237	-13.8	2,785	3,073	10.3
Sales and excise taxes	723	645	-10.8	8,878	8,626	-2.8
Air Travellers Security Charge	31	36	16.1	356	316	-11.2
Total excise taxes and duties	3,571	3,748	5.0	41,240	43,348	5.1
Total tax revenues	17,075	17,101	0.2	150,600	159,293	5.8
<b>Employment insurance premiums</b>	1,797	1,710	-4.8	15,401	15,091	-2.0
<b>Other revenues</b>	968	932	-3.7	13,043	11,072	-15.1
<b>Total budgetary revenues</b>	19,840	19,743	-0.5	179,044	185,456	3.6

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	February		Change	April to February		Change
	2005	2006		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,367	2,496	5.4	25,561	26,680	4.4
Employment insurance benefits	1,423	1,355	-4.8	13,405	13,069	-2.5
Total	3,790	3,851	1.6	38,966	39,749	2.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583	50.2	11,596	17,417	50.2
Canada Social Transfer	652	685	5.1	7,173	7,540	5.1
Health Reform Transfer	125	0	n/a	1,375	0	n/a
Total	1,831	2,268	23.9	20,144	24,957	23.9
Fiscal transfers	634	1,045	64.8	10,020	11,641	16.2
Canada's cities and communities	0	0	n/a	0	670	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-2,413	-2,722	12.8
Total	2,255	3,052	35.3	27,751	34,546	24.5
Subsidies and other transfers						
Agriculture	780	720	-7.7	1,606	2,414	50.3
Foreign Affairs	200	238	19.0	2,210	2,171	-1.8
Health	124	86	-30.6	1,618	1,633	0.9
Human Resources Development	104	124	19.2	1,154	1,268	9.9
Indian and Northern Development	285	278	-2.5	3,903	4,263	9.2
Industry and Regional Development	-16	168	n/a	1,475	1,778	20.5
Other	313	568	81.5	3,582	4,439	23.9
Total	1,790	2,182	21.9	15,548	17,966	15.6
Total transfer payments	7,835	9,085	16.0	82,265	92,261	12.2
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	65	69	6.2	1,037	1,098	5.9
Canada Mortgage and Housing Corporation	170	150	-11.8	1,855	1,857	0.1
Other	107	188	75.7	1,838	1,698	-7.6
Total	342	407	19.0	4,730	4,653	-1.6
Defence	1,024	1,183	15.5	11,929	13,170	10.4
All other departments and agencies	2,147	2,253	4.9	30,012	31,574	5.2
Total other program expenses	3,513	3,843	9.4	46,671	49,397	5.8
<b>Total program expenses</b>	11,348	12,928	13.9	128,936	141,658	9.9
<b>Public debt charges</b>	2,722	2,731	0.3	31,436	30,717	-2.3
<b>Total budgetary expenses</b>	14,070	15,659	11.3	160,372	172,375	7.5

Note: Totals may not sum due to rounding.



Table 4

## Budgetary balance and financial source/requirement

	February		April to February	
	2005	2006	2004-05	2005-06
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	5,770	4,084	18,672	13,081
<b>Non-budgetary transactions</b>				
Capital investing activities	-313	-294	-1,402	-2,108
Other investing activities	-101	-670	-2,015	-3,129
Pension and other accounts	-934	-262	-2,907	-363
Other activities				
Accounts payable, receivables, accruals and allowances	-2,930	-1,404	-8,629	-7,397
Foreign exchange activities	-1,166	15	1,925	2,611
Amortization of tangible capital assets	246	199	2,816	2,748
Total other activities	-3,850	-1,190	-3,888	-2,038
<b>Total non-budgetary transactions</b>	-5,198	-2,416	-10,212	-7,638
<b>Net financial source/requirement</b>	572	1,668	8,460	5,443

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	February		April to February	
	2005	2006	2004-05	2005-06
(\$ millions)				
<b>Net financial source/requirement</b>	572	1,668	8,460	5,443
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,887	2,245	-13,636	-5,526
Treasury bills	1,100	-2,100	2,300	-7,300
Canada Savings Bonds	-196	-137	-2,161	-1,609
Other	-1	0	-29	-223
Total	2,790	8	-13,526	-14,658
Foreign currency borrowings	397	-361	-5,076	-3,920
Total	3,187	-353	-18,602	-18,578
Obligations related to capital leases	34	5	165	65
<b>Net change in financing activities</b>	3,221	-348	-18,437	-18,513
<b>Change in cash balance</b>	3,793	1,320	-9,977	-13,070

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2005	February 28, 2006	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	90,473	89,251	-1,222
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	261,044	-5,526
Treasury bills	127,199	119,899	-7,300
Canada Savings Bonds	19,080	17,471	-1,609
Other	3,393	3,170	-223
Subtotal	416,242	401,584	-14,658
Payable in foreign currencies	16,286	12,366	-3,920
Obligations related to capital leases	2,932	2,997	65
Total unmaturred debt	435,460	416,947	-18,513
Pension and other accounts			
Public sector pensions	129,579	131,407	1,828
Other employee and veteran future benefits	41,549	42,982	1,433
Other pension and other accounts	8,680	5,056	-3,624
Total pension and other accounts	179,808	179,445	-363
Total interest-bearing debt	615,268	596,392	-18,876
<b>Total liabilities</b>	705,741	685,643	-20,098
<b>Financial assets</b>			
Cash and accounts receivable	76,281	69,386	-6,895
Foreign exchange accounts	40,871	38,260	-2,611
Loans, investments and advances (net of allowances)	33,860	36,989	3,129
<b>Total financial assets</b>	151,012	144,635	-6,377
<b>Net debt</b>	554,729	541,008	-13,721
<b>Non-financial assets</b>	54,866	54,226	-640
<b>Federal debt (accumulated deficit)</b>	499,863	486,782	-13,081

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April 2006

# The Fiscal Monitor

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A Publication of the Department of Finance Canada

## Highlights

### March 2006: budgetary deficit of \$1.1 billion

There was a budgetary deficit of \$1.1 billion in March 2006, down from the \$9.9-billion deficit recorded in March 2005. The improvement is almost entirely due to lower program expenses resulting from lower transfer payments, reflecting \$7.2 billion in one-time transfers and adjustments recorded in March 2005 related to the federal-provincial-territorial agreements on health care and Equalization/Territorial Formula Financing (TFF). Program expenses were down \$8.4 billion in March. Budgetary revenues were \$0.8 billion higher, reflecting solid growth in personal income tax revenues and an increase in non-tax revenues, partially offset by declines in corporate income tax and goods and services tax (GST) revenues. Public debt charges were up \$0.3 billion compared to the same month last year.

### April 2005 to March 2006: budgetary surplus of \$8.4 billion, net of anticipated costs related to Bill C-48

For the April 2005 to March 2006 period, the budgetary surplus is estimated at \$12.0 billion, up \$3.3 billion from the \$8.8-billion surplus reported in the same period of 2004-05. Budgetary revenues were up \$7.2 billion, or 3.6 per cent. This gain is net of the \$5.0-billion cost of the personal income tax reduction measures pertaining to the 2005 tax year and the first quarter of 2006. Program expenses were up \$4.3 billion, or 2.8 per cent, primarily due to higher operating expenses for National Defence and other departments and agencies. Public debt charges were \$0.4 billion lower.

The April 2005 to March 2006 monthly results are not the final results for the year as a whole. They do not account for \$3.6 billion in costs related to anticipated payments made under Bill C-48 for 2005-06. After adjusting for these payments, the April to March surplus is \$8.4 billion. Nor do the results reflect the regular end-of-year accounting adjustments, which include final tax accrual adjustments as well as final estimates of the cost of liabilities incurred during the fiscal year.

A discussion of the impact of the March results on the budget forecast for 2005-06 is provided later in this document.

### Note to Readers:

*Budget 2006 was presented on a gross reporting basis, whereas The Fiscal Monitor for March 2006 is presented on a net basis. Beginning with the April 2006 monthly financial results, The Fiscal Monitor will also report the monthly financial results on a gross basis. A reconciliation table is provided later in this document showing the monthly results for the April 2005 to March 2006 period on a gross reporting basis, consistent with the Budget 2006 presentation.*





# The Fiscal Monitor

## March 2006

There was a budgetary deficit of \$1.1 billion in March 2006, down \$8.9 billion from the \$9.9-billion deficit recorded in March 2005.

Budgetary revenues rose \$0.8 billion, or 4.3 per cent, to \$18.6 billion.

- Personal income tax revenues were up \$0.5 billion, or 6.3 per cent.
- Corporate income tax revenues were down \$0.2 billion, or 4.6 per cent, reflecting weaker corporate year-end settlement payments from the refining and non-energy manufacturing sectors.
- Other income tax revenues—withholdings from non-residents—rose \$34 million, or 10.8 per cent.
- Excise taxes and duties were down \$0.1 billion, or 4.1 per cent, due to a \$0.2-billion decline in GST revenues. Customs import duties were up \$87 million, sales and excise taxes rose \$35 million and revenues from the Air Travellers Security Charge were up \$2 million.
- Employment insurance (EI) premiums declined by 6.3 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.
- Other revenues consist of net profits from enterprise Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues. Other revenues, which are volatile on a monthly basis, were up \$0.6 billion.

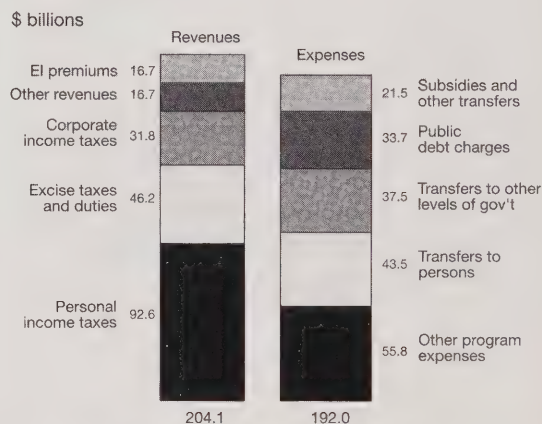
Program expenses in March 2006 were \$16.7 billion, down \$8.4 billion, or 33.6 per cent, from March 2005, primarily reflecting lower transfer payments.

Transfer payments were down \$8.3 billion, or 44.8 per cent.

- Transfers to persons, consisting of elderly and EI benefits, were up \$103 million, or 2.8 per cent. Elderly benefits increased 6.2 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased 3.3 per cent, reflecting a decline in regular benefits.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were down \$7.2 billion, or 70.2 per cent. The decrease in federal transfers in support of health and other social programs and lower fiscal transfers reflect one-time transfers and adjustments under the 2004 agreements on health care and Equalization/TFF recorded in March 2005.

## Revenues and expenses

(April 2005-March 2006)



- Subsidies and other transfers decreased by \$1.3 billion, or 26.9 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities.

Consistent with the announcement in Budget 2006, this category now also includes the net expenses of foundations. On a year-over-year basis, other program expenses decreased \$0.1 billion, or 1.3 per cent.

Public debt charges increased \$0.3 billion, or 11.8 per cent, due to an increase in the average effective interest rate on the debt.

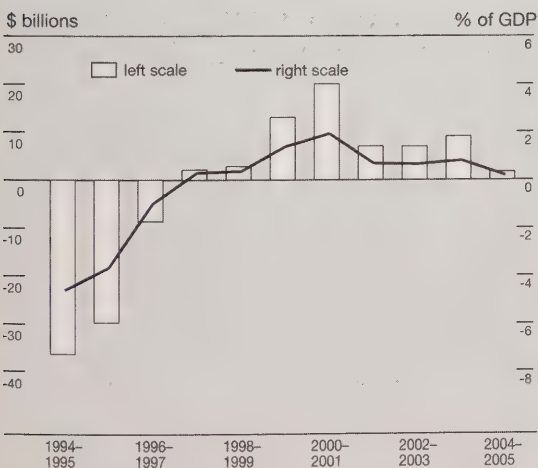
## April 2005 to March 2006

For the April 2005 to March 2006 period, there was a budgetary surplus of \$12.0 billion, \$3.3 billion higher than the \$8.8-billion surplus reported in the same period of 2004-05.

Budgetary revenues rose \$7.2 billion, or 3.6 per cent, to \$204.1 billion.

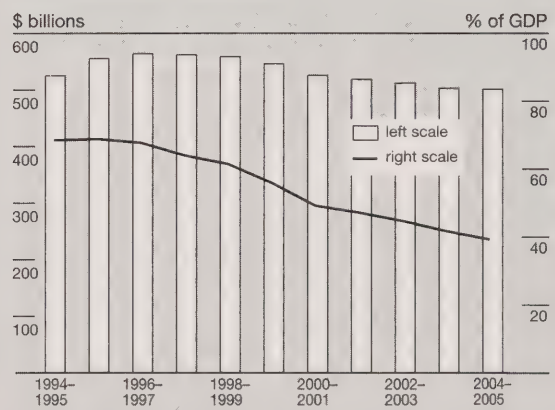
- Personal income tax revenues rose \$3.9 billion, or 4.4 per cent. This gain is net of the \$5.0-billion cost of the personal income tax reduction measures pertaining to the 2005 tax year and the first quarter of 2006.
- Corporate income tax revenues were up \$2.0 billion, or 6.6 per cent, reflecting gains in corporate profitability in 2005.
- Other income tax revenues increased by \$1.1 billion, or 31.0 per cent, reflecting increased dividend payments to non-residents.
- Excise taxes and duties rose \$2.0 billion, or 4.5 per cent. GST revenues increased \$1.9 billion, or 6.0 per cent, broadly consistent with growth in retail sales of 6.7 per cent over the comparable period. Customs import duties were up 12.4 per cent. Sales and excise taxes were down 2.2 per cent, while the Air Travellers Security Charge was down 9.8 per cent, reflecting reductions in the charge, effective April 1, 2005.

## Budgetary balance



Sources: Department of Finance Canada and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance Canada and Statistics Canada.

# The Fiscal Monitor

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- EI premiums were down 2.5 per cent, as the impact of the reductions in premium rates in January 2005 and January 2006 more than offset the impact of higher employment and wages and salaries.
- Other revenues were down \$1.3 billion, or 10.0 per cent, reflecting the impact of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Program expenses in the April 2005 to March 2006 period were \$158.3 billion, up \$4.3 billion, or 2.8 per cent, over the same period of 2004–05. Public debt charges declined by \$0.4 billion. Transfer payments, which account for over half of program expenses, increased by \$1.7 billion, or 1.6 per cent.

- Transfers to persons advanced by 2.1 per cent. Elderly benefits were up 4.5 per cent while EI benefits were down 2.6 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were down \$0.5 billion, or 1.3 per cent.
- Subsidies and other transfers increased by 6.2 per cent, reflecting the impact of measures from recent budgets as well as transfers under the new Grains and Oilseeds Payment Program and the Energy Cost Benefit.

Other program expenses increased by 5.0 per cent due to higher operating expenses for National Defence and other departments and agencies.

Public debt charges were down 1.2 per cent due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## **Financial source of \$5.4 billion for April 2005 to March 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$6.6 billion in the April 2005 to March 2006 period, up \$2.5 billion from the requirement in the same period of 2004–05.

With a budgetary surplus of \$12.0 billion and a net requirement of \$6.6 billion from non-budgetary transactions, there was a financial source of \$5.4 billion in the April 2005 to March 2006 period, compared to a financial source of \$4.7 billion in the same period of 2004–05.



## **Net financing activities down \$4.6 billion**

The Government used this financial source of \$5.4 billion to increase its cash balances by \$0.8 billion and to reduce its market debt by \$4.6 billion by the end of March 2006, largely through a reduction of marketable bonds.

The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of March stood at \$17.9 billion.

## **Quarterly update of the fiscal outlook for 2005–06: estimated outcome for 2005–06 unchanged from budget, with a projected budgetary surplus of \$8.0 billion**

The monthly results for the 12-month period ended March 2006 are consistent with the forecast presented in the 2006 budget, which was prepared based on monthly financial information through February 2006. However, March data show that both corporate income tax revenues and direct program expenses came in lower than expected.

Corporate income tax revenues in March 2006 were weaker than expected due to lower than anticipated settlement payments from the energy sector. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. As roughly three-quarters of Canadian corporations have corporate year-ends in September through December, most corporate settlement payments are received in January through March. As such, the magnitude of corporate receipts in March is very volatile. However, the final result for corporate income tax receipts for 2005–06 will likely be higher than reported in the April to March period. Positive year-end accrual adjustments are generally recorded in the corporate tax stream. This reflects the fact that no adjustments are made to the monthly corporate data for payables and receivables due to a lack of reliable information on which to base such adjustments.

The shortfall in corporate income tax revenues was offset by lower than projected direct program expenses, as it appears that the dissolution of Parliament in November lowered program expenses by more than anticipated in the budget forecast.

All told, the year-to-date results are consistent with the budget forecast of a surplus of \$8.0 billion for 2005–06.

The above results are not the final results for the year as a whole.

- The April 2005 to March 2006 monthly results do not account for \$3.6 billion in costs related to anticipated payments made under Bill C-48 for 2005–06, yielding a surplus estimate of \$8.4 billion.
- Nor do the results reflect the regular end-of-year accounting adjustments, which include final tax accrual adjustments as well as final estimates of the cost of liabilities incurred during the fiscal year.
- While the monthly results include estimates of tax accruals, the final accruals can vary significantly from the monthly estimates due to factors such as the magnitude of registered retirement savings plan contributions and variations in capital gains and losses reported at tax filing. Final accrual estimates will be determined based on assessments of tax files as at May 31.
- Similarly, while the monthly results attempt to reflect the most up-to-date information on the Government's legal and environmental liabilities, provisions for guarantees, and allowances for valuation of loans, investments and advances, these are ultimately determined when the books are closed for the year, generally in September.

## Differences between net and gross reporting

The revenues and expenses in Tables 1–6 are presented on a “net” basis, with certain expenses netted against budgetary revenues and certain revenues netted against expenses: the Canada Child Tax Benefit is netted against personal income tax revenues; departmental revenues that are levied for specific purposes, such as the contract costs of policing services in provinces, are netted against expenses; and revenues of consolidated Crown corporations and other entities are netted against their total expenses. This classification has the effect of reducing both revenues and expenses but has no impact on the budgetary balance. The following table shows the impact of “grossing up” budgetary revenues and expenses for these adjustments. Beginning with the April 2006 monthly financial results, *The Fiscal Monitor* will be presented on a gross basis, consistent with the presentation in Budget 2006.

## Differences between net and gross reporting

	March		April to March	
	2005	2006	2004–05	2005–06
	(\$ millions)			
<b>Net revenues</b>	17,844	18,607	196,889	204,061
Add: Adjustments				
Canada Child Tax Benefit (personal income tax)	752	809	8,745	9,278
Revenues netted against program expenses (other revenues)	481	515	2,493	2,837
Revenues of consolidated Crown corporations and foundations (other revenues)	386	361	1,761	1,718
Net adjustment	1,619	1,685	12,999	13,833
<b>Gross revenues</b>	19,463	20,292	209,888	217,894
 <b>Net program expenses</b>	 25,076	 16,654	 154,015	 158,311
Add: Adjustments				
Canada Child Tax Benefit (transfers to persons)	752	809	8,745	9,278
Revenues netted against program expenses (other program expenses)	481	515	2,493	2,837
Revenues of consolidated Crown corporations and foundations (other program expenses)	386	361	1,761	1,718
Net adjustment	1,619	1,685	12,999	13,833
<b>Gross program expenses</b>	26,695	18,339	167,014	172,144



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	March		April to March	
	2005	2006	2004-05	2005-06
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	17,844	18,607	196,889	204,061
Expenses				
Program expenses	-25,076	-16,654	-154,015	-158,311
Public debt charges	-2,687	-3,004	-34,122	-33,722
Budgetary balance (deficit/surplus)	-9,919	-1,051	8,752	12,028
<b>Non-budgetary transactions</b>	6,120	1,046	-4,091	-6,593
<b>Financial source/requirement</b>	-3,799	-5	4,661	5,435
<b>Net change in financing activities</b>	13,647	13,886	-4,790	-4,626
<b>Net change in cash balances</b>	9,848	13,881	-129	809
<b>Cash balance at end of period</b>			17,122	17,931

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	March			April to March		
	2005	2006	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,213	8,732	6.3	88,686	92,558	4.4
Corporate income tax	4,238	4,043	-4.6	29,872	31,842	6.6
Other income tax revenue	316	350	10.8	3,567	4,671	31.0
Total income tax	12,767	13,125	2.8	122,125	129,071	5.7
Excise taxes and duties						
Goods and services tax	1,939	1,694	-12.6	31,161	33,027	6.0
Customs import duties	249	336	34.9	3,034	3,409	12.4
Sales and excise taxes	728	763	4.8	9,606	9,390	-2.2
Air Travellers Security Charge	33	35	6.1	389	351	-9.8
Total excise taxes and duties	2,949	2,828	-4.1	44,190	46,177	4.5
Total tax revenues	15,716	15,953	1.5	166,315	175,248	5.4
<b>Employment insurance premiums</b>	1,768	1,657	-6.3	17,169	16,748	-2.5
<b>Other revenues</b>	360	997	176.9	13,405	12,065	-10.0
<b>Total budgetary revenues</b>	17,844	18,607	4.3	196,889	204,061	3.6

Note: Totals may not sum due to rounding.

Table 3

## Budgetary expenses

	March		Change	April to March		Change
	2005	2006		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,365	2,512	6.2	27,926	29,192	4.5
Employment insurance benefits	1,328	1,284	-3.3	14,734	14,352	-2.6
Total	3,693	3,796	2.8	42,660	43,544	2.1
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	6,835	1,583	-76.8	18,431	19,000	3.1
Canada Social Transfer	727	685	-5.8	7,900	8,225	4.1
Health Reform Transfer	125	0	n/a	1,500	0	n/a
Total	7,687	2,268	-70.5	27,831	27,225	-2.2
Fiscal transfers	2,882	796	-72.4	12,902	12,437	-3.6
Canada's cities and communities	0	0	n/a	0	580	n/a
Alternative Payments for Standing Programs	-333	-10	-97.0	-2,746	-2,732	-0.5
Total	10,236	3,054	-70.2	37,987	37,510	-1.3
Subsidies and other transfers						
Agriculture	1,044	244	-76.6	2,650	2,658	0.3
Foreign Affairs	1,182	887	-25.0	3,391	3,058	-9.8
Health	246	287	16.7	1,864	1,920	3.0
Human Resources Development	49	148	202.0	1,203	1,416	17.7
Indian and Northern Development	452	544	20.4	4,354	4,807	10.4
Industry and Regional Development	207	205	-1.0	1,682	1,983	17.9
Other	1,497	1,102	-26.4	5,080	5,632	10.9
Total	4,677	3,417	-26.9	20,224	21,474	6.2
Total transfer payments	18,606	10,267	-44.8	100,871	102,528	1.6
<b>Other program expenses</b>						
Crown corporation and foundation expenses						
Canadian Broadcasting Corporation	0	0	n/a	1,037	1,098	5.9
Canada Mortgage and Housing Corporation	190	176	-7.4	2,045	2,033	-0.6
Other	697	874	25.4	2,535	2,571	1.4
Total	887	1,050	18.4	5,617	5,702	1.5
Defence	1,633	1,566	-4.1	13,562	14,736	8.7
All other departments and agencies	3,950	3,771	-4.5	33,965	35,345	4.1
Total other program expenses	6,470	6,387	-1.3	53,144	55,783	5.0
<b>Total program expenses</b>	25,076	16,654	-33.6	154,015	158,311	2.8
<b>Public debt charges</b>	2,687	3,004	11.8	34,122	33,722	-1.2
<b>Total budgetary expenses</b>	27,763	19,658	-29.2	188,137	192,033	2.1

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	March		April to March	
	2005	2006	2004-05	2005-06
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-9,919	-1,051	8,752	12,028
<b>Non-budgetary transactions</b>				
Capital investing activities	-862	-674	-2,264	-2,783
Other investing activities	-636	359	-2,651	-2,772
Pension and other accounts	278	515	-2,628	153
Other activities				
Accounts payable, receivables, accruals and allowances	5,321	2,192	-3,307	-5,205
Foreign exchange activities	1,517	-1,567	3,441	1,045
Amortization of tangible capital assets	502	221	3,318	2,969
Total other activities	7,340	846	3,452	-1,191
<b>Total non-budgetary transactions</b>	6,120	1,046	-4,091	-6,593
<b>Net financial source/requirement</b>	-3,799	-5	4,661	5,435

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	March		April to March	
	2005	2006	2004-05	2005-06
	(\$ millions)			
<b>Net financial source/requirement</b>	-3,799	-5	4,661	5,435
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,348	674	-12,288	-4,852
Treasury bills	11,500	11,700	13,800	4,400
Canada Savings Bonds	-83	-124	-2,244	-1,732
Other	-6	-68	-35	-290
Total	12,759	12,182	-767	-2,474
Foreign currency borrowings	822	1,719	-4,254	-2,202
Total	13,581	13,901	-5,021	-4,676
Obligations related to capital leases	66	-15	231	50
<b>Net change in financing activities</b>	13,647	13,886	-4,790	-4,626
<b>Change in cash balance</b>	9,848	13,881	-129	809

Note: Totals may not sum due to rounding.



Table 6

## Condensed statement of assets and liabilities

	March 31, 2005	March 31, 2006	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	90,478	85,961	-4,517
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	261,718	-4,852
Treasury bills	127,199	131,599	4,400
Canada Savings Bonds	19,080	17,348	-1,732
Other	3,393	3,103	-290
Subtotal	416,242	413,768	-2,474
Payable in foreign currencies	16,286	14,084	-2,202
Obligations related to capital leases	2,932	2,982	50
Total unmaturing debt	435,460	430,834	-4,626
Pension and other accounts			
Public sector pensions	129,579	131,479	1,900
Other employee and veteran future benefits	41,549	43,112	1,563
Other pension and other accounts	8,680	5,370	-3,310
Total pension and other accounts	179,808	179,961	153
Total interest-bearing debt	615,268	610,795	-4,473
<b>Total liabilities</b>	705,746	696,756	-8,990
<b>Financial assets</b>			
Cash and accounts receivable	76,349	77,846	1,497
Foreign exchange accounts	40,871	39,826	-1,045
Loans, investments and advances (net of allowances)	39,249	42,021	2,772
<b>Total financial assets</b>	156,469	159,693	3,224
<b>Net debt</b>	549,277	537,063	-12,214
<b>Non-financial assets</b>	54,870	54,684	-186
<b>Federal debt (accumulated deficit)</b>	494,407	482,379	-12,028

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*Ce document est également offert en français.*

May 2006



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### April 2006: budgetary surplus of \$2.6 billion

There was a budgetary surplus of \$2.6 billion in April 2006, up \$1.2 billion from the restated surplus of \$1.5 billion in April 2005. Budgetary revenues were up \$1.1 billion, while program expenses and public debt charges were each down \$0.1 billion. Monthly financial results can vary significantly and are not necessarily indicative of the final results for the fiscal year as a whole.

### Note to Readers:

*Beginning with this Fiscal Monitor, the monthly financial results are presented on a gross reporting basis, consistent with the presentation in Budget 2006. Previously, certain expenses were netted against budgetary revenues and certain revenues netted against expenses, as described in the March Fiscal Monitor. In addition, certain foundations are consolidated within the government reporting entity, as in Budget 2006. The 2005 data have been restated on a consistent basis.*

*To facilitate comparison with the 2006–07 monthly results, revenues from April to December 2005 are being restated to evenly distribute the cost of the retroactive increase in the basic personal amount and the reduction of the 16-per-cent tax rate to 15 per cent for taxation year 2005. Originally, the cost of the measures was booked entirely in November 2005 (\$3.7 billion for the first 11 months of 2005) and December 2005 (\$0.3 billion pertaining to the month of December), following the announcement of the measures in the November 2005 Economic and Fiscal Update. Restated revenues for April 2005 to March 2006 will reflect evenly distributed tax measures of about \$0.4 billion per month. This will also have an impact on reported surpluses for these months.*

### April 2006

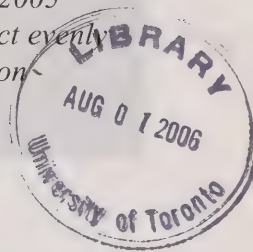
The April 2006 budgetary surplus of \$2.6 billion was \$1.2 billion higher than the restated \$1.5-billion surplus for April 2005.

Budgetary revenues were up \$1.1 billion, or 6.0 per cent, to \$19.0 billion.

- Personal income tax revenues posted a strong increase of \$1.2 billion or 14.4 per cent, reflecting an extra processing cycle in April 2006 compared with

April 2005 as well as higher employment and wages and salaries. In addition, April 2005 personal income tax revenues have been restated to reflect that month's portion of the cost of the retroactive tax reduction measures for taxation year 2005.

- Corporate income tax revenues were down \$0.1 billion or 3.0 per cent.





# The Fiscal Monitor

- Other income tax receipts—withholdings from non-residents—rose \$0.1 billion.
- Excise taxes and duties rose \$0.2 billion. Goods and services tax revenues were up \$0.1 billion or 5.0 per cent. Customs import duties rose \$53 million, sales and excise taxes increased by \$12 million and revenues from the Air Travellers Security Charge were up \$2 million.
- Employment insurance (EI) premiums declined by 6.7 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.
- Other revenues consist of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues. Consistent with the announcement in Budget 2006, this category now also includes the revenues of certain foundations. Other revenues, which are volatile on a monthly basis, were down \$0.2 billion.

Program expenses in April 2006 were \$13.6 billion, down \$0.1 billion or 0.4 per cent from April 2005, primarily reflecting lower other program expenses.

Transfer payments were virtually unchanged.

- Major transfers to persons, consisting of elderly benefits, EI benefits and child tax benefits, were up \$0.2 billion or 5.3 per cent. Elderly benefits increased 4.3 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefits increased 7.8 per cent, reflecting an increase in regular benefits. Child tax benefits were up 4.7 per cent.

- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.1 billion or 2.8 per cent, reflecting an increase in transfers in support of health and other social programs under the 2004 agreement on health care.
- Subsidies and other transfers decreased by \$0.3 billion or 16.5 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. Consistent with the announcement in Budget 2006, this category now also includes the expenses of certain foundations. Other program expenses decreased by \$49 million or 1.1 per cent.

## Revenues and expenses

(April 2006)

\$ billions

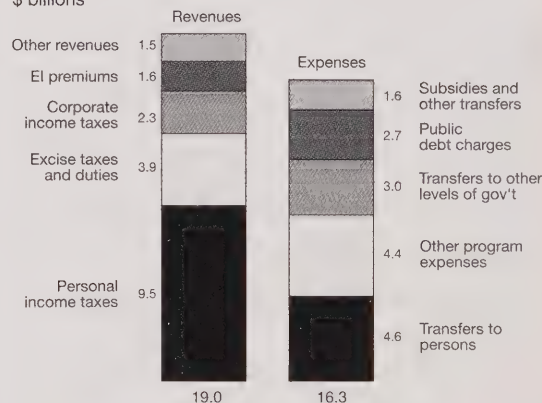


Table 3

## Budgetary expenses

	April		Change
	2005	2006	
	(\$ millions)		(%)
<b>Transfer payments</b>			
Transfers to persons			
Elderly benefits	2,402	2,506	4.3
Employment insurance benefits	1,160	1,251	7.8
Child tax benefits	774	810	4.7
Total	4,336	4,567	5.3
Transfers to other levels of government			
Support for health and other social programs			
Canada Health Transfer	1,583	1,678	6.0
Canada Social Transfer	685	708	3.4
Total	2,268	2,386	5.2
Fiscal transfers	949	927	-2.3
Canada's cities and communities	0	0	n/a
Alternative Payments for Standing Programs	-254	-268	5.5
Total	2,963	3,045	2.8
Subsidies and other transfers			
Agriculture	135	74	-45.2
Foreign Affairs	266	26	-90.2
Health	103	108	4.9
Human Resources Development	117	95	-18.8
Indian and Northern Development	674	658	-2.4
Industry and Regional Development	119	108	-9.2
Other	490	521	6.3
Total	1,904	1,590	-16.5
Total transfer payments	9,203	9,202	0.0
<b>Other program expenses</b>			
Crown corporation and foundation expenses			
Canadian Broadcasting Corporation	205	215	4.9
Canada Mortgage and Housing Corporation	149	190	27.5
Other	414	396	-4.3
Total	768	801	4.3
Defence	816	1,034	26.7
All other departments and agencies	2,865	2,565	-10.5
Total other program expenses	4,449	4,400	-1.1
<b>Total program expenses</b>	13,652	13,602	-0.4
<b>Public debt charges</b>	2,778	2,714	-2.3
<b>Total budgetary expenses</b>	16,430	16,316	-0.7

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	April	
	2005	2006
	(\$ millions)	
<b>Budgetary transactions</b>		
Revenues	17,886	18,955
Expenses		
Program expenses	-13,652	-13,602
Public debt charges	-2,778	-2,714
Budgetary balance (deficit/surplus)	1,456	2,639
<b>Non-budgetary transactions</b>	-6,550	-3,880
<b>Financial source/requirement</b>	-5,094	-1,241
<b>Net change in financing activities</b>	-8,099	-12,183
<b>Net change in cash balances</b>	-13,193	-13,424
<b>Cash balance at end of period</b>	3,931	4,508

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	April		Change
	2005	2006	
	(\$ millions)		(%)
<b>Tax revenues</b>			
Income taxes			
Personal income tax	8,317	9,511	14.4
Corporate income tax	2,404	2,333	-3.0
Other income tax revenue	234	330	41.0
Total income tax	10,955	12,174	11.1
Excise taxes and duties			
Goods and services tax	2,719	2,855	5.0
Customs import duties	242	295	21.9
Sales and excise taxes	749	761	1.6
Air Travellers Security Charge	33	35	6.1
Total excise taxes and duties	3,743	3,946	5.4
Total tax revenues	14,698	16,120	9.7
<b>Employment insurance premiums</b>	1,753	1,636	-6.7
<b>Other revenues</b>	1,435	1,199	-16.4
<b>Total budgetary revenues</b>	17,886	18,955	6.0

Note: Totals may not sum due to rounding.



# The Fiscal Monitor

Public debt charges decreased by \$0.1 billion or 2.3 per cent, reflecting a decline in the stock of interest-bearing debt and a decrease in the average effective interest rate on that debt.

## Financial requirement of \$1.2 billion for April 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets.

The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

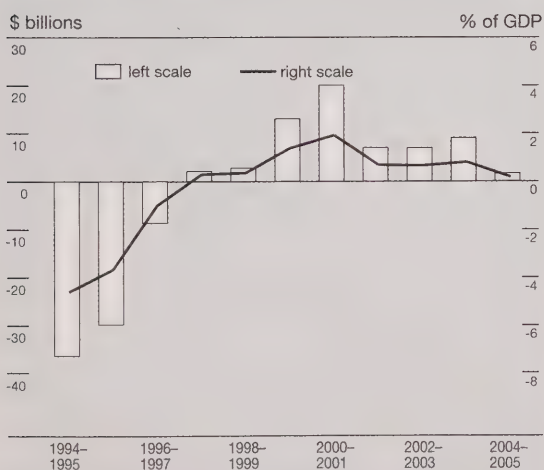
Non-budgetary transactions resulted in a net requirement of \$3.9 billion in April 2006, down \$2.7 billion from the \$6.6-billion requirement in April 2005.

With a budgetary surplus of \$2.6 billion and a net requirement of \$3.9 billion from non-budgetary transactions, there was a financial requirement of \$1.2 billion in April 2006, compared to a financial requirement of \$5.1 billion in April 2005.

## Net financing activities down \$12.2 billion

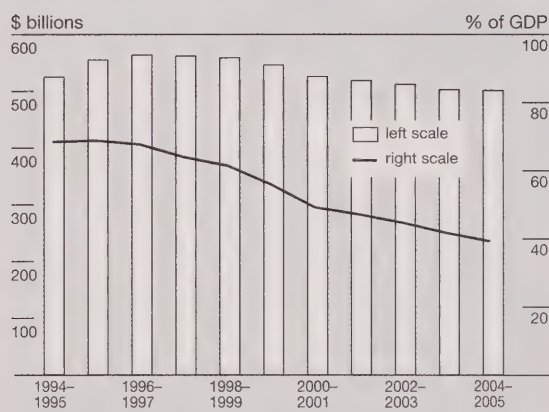
The Government reduced its net financing activities by \$12.2 billion in April 2006 through a reduction of its cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of April 2006 stood at \$4.5 billion.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	April	
	2005	2006
	(\$ millions)	
<b>Budgetary balance (deficit/surplus)</b>	1,456	2,639
<b>Non-budgetary transactions</b>		
Capital investing activities	108	-25
Other investing activities	-407	555
Pension and other accounts	-568	222
Other activities		
Accounts payable, receivables, accruals and allowances	-6,818	-5,952
Foreign exchange activities	878	1,058
Amortization of tangible capital assets	257	262
Total other activities	-5,683	-4,632
<b>Total non-budgetary transactions</b>	-6,550	-3,880
<b>Net financial source/requirement</b>	-5,094	-1,241

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	April	
	2005	2006
	(\$ millions)	
<b>Net financial source/requirement</b>	-5,094	-1,241
Net increase (+)/decrease (-) in financing activities		
Unmatured debt transactions		
Canadian currency borrowings		
Marketable bonds	-1,109	303
Treasury bills	-5,700	-10,500
Canada Savings Bonds	-61	-83
Other	0	-61
Total	-6,870	-10,341
Foreign currency borrowings	-1,229	-1,828
Total	-8,099	-12,169
Obligations related to capital leases	0	-14
<b>Net change in financing activities</b>	-8,099	-12,183
<b>Change in cash balance</b>	-13,193	-13,424

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June 2006

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### April 2006: budgetary surplus of \$2.6 billion

There was a budgetary surplus of \$2.6 billion in April 2006, up \$1.2 billion from the restated surplus of \$1.5 billion in April 2005. Budgetary revenues were up \$1.1 billion, while program expenses and public debt charges were each down \$0.1 billion. Monthly financial results can vary significantly and are not necessarily indicative of the final results for the fiscal year as a whole.

### Note to Readers:

*Beginning with this Fiscal Monitor, the monthly financial results are presented on a gross reporting basis, consistent with the presentation in Budget 2006. Previously, certain expenses were netted against budgetary revenues and certain revenues netted against expenses, as described in the March Fiscal Monitor. In addition, certain foundations are consolidated within the government reporting entity, as in Budget 2006. The 2005 data have been restated on a consistent basis.*

*To facilitate comparison with the 2006–07 monthly results, revenues from April to December 2005 are being restated to evenly distribute the cost of the retroactive increase in the basic personal amount and the reduction of the 16-per-cent tax rate to 15 per cent for taxation year 2005. Originally, the cost of the measures was booked entirely in November 2005 (\$3.7 billion for the first 11 months of 2005) and December 2005 (\$0.3 billion pertaining to the month of December), following the announcement of the measures in the November 2005 Economic and Fiscal Update. Restated revenues for April 2005 to March 2006 will reflect evenly distributed tax measures of about \$0.4 billion per month. This will also have an impact on reported surpluses for these months.*

### April 2006

The April 2006 budgetary surplus of \$2.6 billion was \$1.2 billion higher than the restated \$1.5-billion surplus for April 2005.

Budgetary revenues were up \$1.1 billion, or 6.0 per cent, to \$19.0 billion.

- Personal income tax revenues posted a strong increase of \$1.2 billion or 14.4 per cent, reflecting an extra processing cycle in April 2006 compared with

April 2005 as well as higher employment and wages and salaries. In addition, April 2005 personal income tax revenues have been restated to reflect that month's portion of the cost of the retroactive tax reduction measures for taxation year 2005.

- Corporate income tax revenues were down \$0.1 billion or 3.0 per cent.





# The Fiscal Monitor

- Other income tax receipts—withholdings from non-residents—rose \$0.1 billion.
- Excise taxes and duties rose \$0.2 billion. Goods and services tax revenues were up \$0.1 billion or 5.0 per cent. Customs import duties rose \$53 million, sales and excise taxes increased by \$12 million and revenues from the Air Travellers Security Charge were up \$2 million.
- Employment insurance (EI) premiums declined by 6.7 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.
- Other revenues consist of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues. Consistent with the announcement in Budget 2006, this category now also includes the revenues of certain foundations. Other revenues, which are volatile on a monthly basis, were down \$0.2 billion.

Program expenses in April 2006 were \$13.6 billion, down \$0.1 billion or 0.4 per cent from April 2005, primarily reflecting lower other program expenses.

Transfer payments were virtually unchanged.

- Major transfers to persons, consisting of elderly benefits, EI benefits and child tax benefits, were up \$0.2 billion or 5.3 per cent. Elderly benefits increased 4.3 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefits increased 7.8 per cent, reflecting an increase in regular benefits. Child tax benefits were up 4.7 per cent.

- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.1 billion or 2.8 per cent, reflecting an increase in transfers in support of health and other social programs under the 2004 agreement on health care.
- Subsidies and other transfers decreased by \$0.3 billion or 16.5 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. Consistent with the announcement in Budget 2006, this category now also includes the expenses of certain foundations. Other program expenses decreased by \$49 million or 1.1 per cent.

## Revenues and expenses

(April 2006)

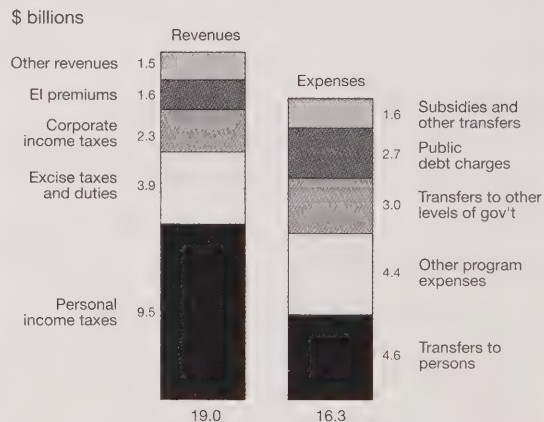


Table 3

## Budgetary expenses

	April		Change (%)
	2005 (\$ millions)	2006	
<b>Transfer payments</b>			
Transfers to persons			
Elderly benefits	2,402	2,506	4.3
Employment insurance benefits	1,160	1,251	7.8
Child tax benefits	774	810	4.7
Total	4,336	4,567	5.3
Transfers to other levels of government			
Support for health and other social programs			
Canada Health Transfer	1,583	1,678	6.0
Canada Social Transfer	685	708	3.4
Total	2,268	2,386	5.2
Fiscal transfers	949	927	-2.3
Canada's cities and communities	0	0	n/a
Alternative Payments for Standing Programs	-254	-268	5.5
Total	2,963	3,045	2.8
Subsidies and other transfers			
Agriculture	135	74	-45.2
Foreign Affairs	266	26	-90.2
Health	103	108	4.9
Human Resources Development	117	95	-18.8
Indian and Northern Development	674	658	-2.4
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Total	1,904	1,590	-16.5
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Total other program expenses	4,449	4,400	-1.1
<b>Total program expenses</b>	13,652	13,602	-0.4
<b>Public debt charges</b>	2,778	2,714	-2.3
<b>Total budgetary expenses</b>	16,430	16,316	-0.7

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# The Fiscal Monitor

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<b>Financial source/requirement</b>	-5,094	-1,241
<b>Net change in financing activities</b>	-8,099	-12,183
<b>Net change in cash balances</b>	-13,193	-13,424
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Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

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## Budgetary revenues

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	2005	2006	
	(\$ millions)		
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Public debt charges decreased by \$0.1 billion or 2.3 per cent, reflecting a decline in the stock of interest-bearing debt and a decrease in the average effective interest rate on that debt.

## Financial requirement of \$1.2 billion for April 2006

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The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

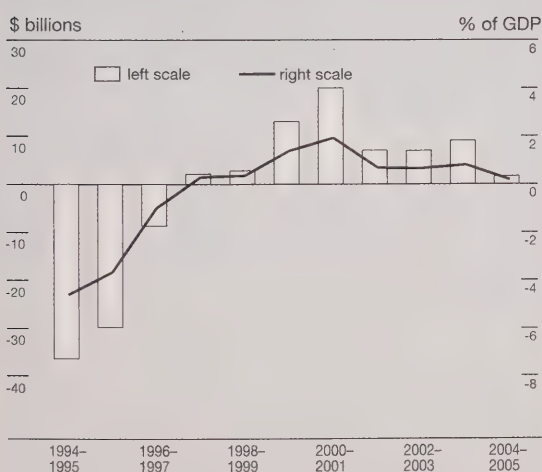
Non-budgetary transactions resulted in a net requirement of \$3.9 billion in April 2006, down \$2.7 billion from the \$6.6-billion requirement in April 2005.

With a budgetary surplus of \$2.6 billion and a net requirement of \$3.9 billion from non-budgetary transactions, there was a financial requirement of \$1.2 billion in April 2006, compared to a financial requirement of \$5.1 billion in April 2005.

## Net financing activities down \$12.2 billion

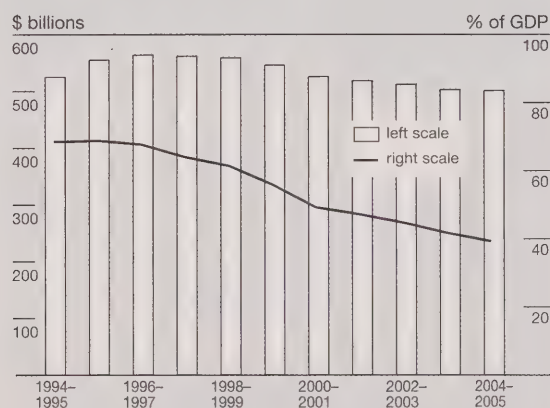
The Government reduced its net financing activities by \$12.2 billion in April 2006 through a reduction of its cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of April 2006 stood at \$4.5 billion.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

Table 4

## Budgetary balance and financial source/requirement

	April	
	2005	2006
	(\$ millions)	
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Other investing activities	-407	555
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Foreign exchange activities	878	1,058
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## Financial source/requirement and net financing activities

	April	
	2005	2006
	(\$ millions)	
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Net increase (+)/decrease (-) in financing activities		
Unmatured debt transactions		
Canadian currency borrowings		
Marketable bonds	-1,109	303
Treasury bills	-5,700	-10,500
Canada Savings Bonds	-61	-83
Other	0	-61
Total	-6,870	-10,341
Foreign currency borrowings	-1,229	-1,828
Total	-8,099	-12,169
Obligations related to capital leases	0	-14
<b>Net change in financing activities</b>	-8,099	-12,183
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June 2006

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### May 2006: budgetary surplus of \$0.6 billion

There was a budgetary surplus of \$0.6 billion in May 2006, up \$0.2 billion from the surplus in the same month last year. Revenues increased by \$0.9 billion, due mainly to strong growth in income taxes. Program expenses increased by \$0.7 billion, primarily reflecting increases in subsidies and other transfer payments. Public debt charges were down slightly compared to the same month last year.

### April to May 2006: budgetary surplus of \$3.3 billion

For the first two months of the 2006–07 fiscal year, the budgetary surplus is estimated at \$3.3 billion, up \$1.4 billion from the \$1.9-billion surplus posted in the same period one year ago. Revenues were up \$2.0 billion year-over-year in the first two months of the fiscal year, reflecting strong growth in income tax revenues, slightly offset by a decline in excise taxes and duties and Employment Insurance premiums. Program expenses were up \$0.7 billion due to both higher transfers and increased Defence spending. Public debt charges were \$0.1 billion lower.

### Note to Readers:

*These results are not indicative of the results expected over the rest of the fiscal year. In most years, financial results can vary markedly from month to month and budgetary balances do not always build consistently over the course of the fiscal year. Most importantly this year, more than two-thirds of the \$14.3 billion in tax reductions and expenditure increases for 2006–07 announced in the 2006 budget, including the goods and services tax (GST) reduction and the introduction of the Universal Child Care Benefit, which did not come into effect until July 1st, are not reflected in the monthly results to date. As more of the Budget measures are implemented over the coming months, the overall fiscal results are expected to fall in line with projections presented in Budget 2006.*

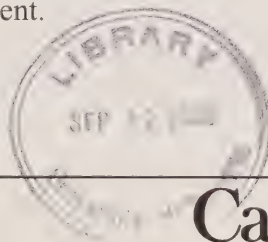
### May 2006

There was a budgetary surplus of \$0.6 billion in May 2006, up \$0.2 billion from May 2005.

Budgetary revenues increased by \$0.9 billion, or 5.2 per cent, to \$18.3 billion.

- Personal income tax receipts were up \$0.9 billion or 12.0 per cent, reflecting solid growth in employment and wages and salaries.

- Corporate income tax revenues rose \$0.5 billion or 20.5 per cent in May, following a 3.0-per cent decline in April.
- Other income tax receipts—withholdings from non-residents—fell by \$4 million, or 1.2 per cent.





# The Fiscal Monitor

- Excise taxes and duties fell \$0.5 billion, or 12.7 per cent. The decline was largely due to a \$0.4-billion or 12.9-per-cent decrease in GST revenues, reflecting in part weak customs GST receipts, following a 5.0-percent rise in GST revenues in April. GST revenue can be volatile on a month-to-month basis. Customs import duties and sales and excise taxes were each down \$0.1 billion. Revenues from the Air Travellers Security Charge were up \$2 million.
- Employment insurance (EI) premiums declined by 7.4 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were up \$0.2 billion from last year. Other revenues can be volatile on a monthly basis.

Program expenses in May 2006 were \$14.8 billion, up \$0.7 billion, or 5.0 per cent, from May 2005, due to both higher transfer payments and higher other program expenses.

Transfer payments were up \$0.5 billion, or 5.8 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and child tax benefits, were down \$0.2 billion, or 3.9 per cent, on a year-over-year basis. Elderly benefits increased 4.6 per cent due to both higher average benefits, which are indexed to CPI-inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 23.0 per cent, reflecting a decline in regular benefits. Child tax benefits were up 3.4 per cent.

- Major transfers to other levels of government, consisting of the federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs were up \$0.2 billion, or 5.0 per cent, reflecting an increase in federal transfers in support of health and other social transfers under the 2004 agreement on health care.
- Subsidies and other transfers increased by \$0.6 billion, or 37.1 per cent. This component is volatile on a monthly basis.

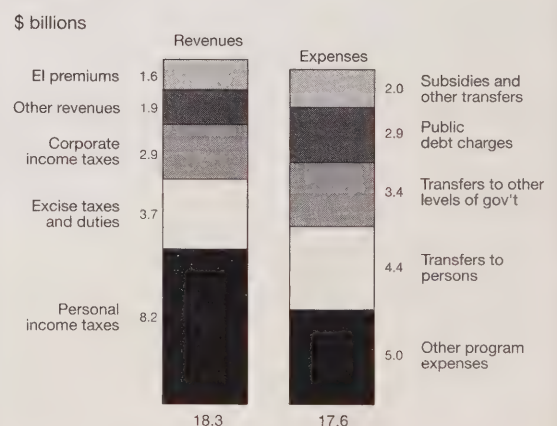
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the government's liabilities. On a year-over-year basis, these expenses increased \$0.2 billion or 3.5 per cent.

Public debt charges decreased by \$36 million.

## April to May 2006

In the first two months of the fiscal year, there was a budgetary surplus of \$3.3 billion, \$1.4 billion more than the \$1.9-billion surplus reported for the same period of 2005–06.

### Revenues and expenses (May 2006)



Budgetary revenues were up \$2.0 billion, or 5.6 per cent, to \$37.2 billion.

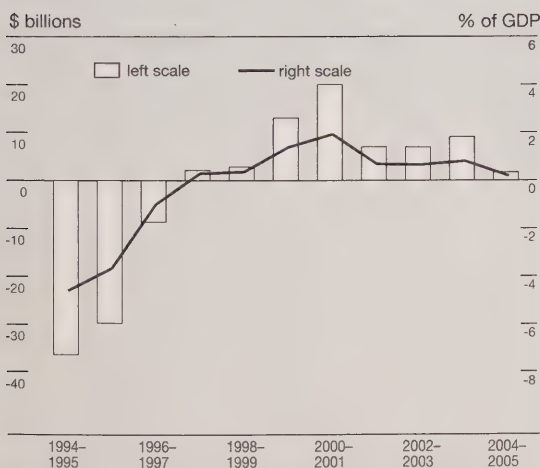
- Personal income tax revenues rose \$2.1 billion, or 13.2 per cent, reflecting strong growth in employment and wages and salaries.
- Corporate income tax revenues were up \$0.4 billion, or 8.9 per cent, reflecting the higher instalment base, which in turn reflects profit growth in 2005. In addition, while the accelerated elimination of the federal capital tax announced in Budget 2006 was retroactive to January 2006, it is not yet reflected in corporate income tax collections. The measure is expected to be reflected in instalment payments in the coming months.
- Other income tax revenues increased by \$0.1 billion, or 16.0 per cent.
- Excise taxes and duties declined by \$0.3 billion, or 4.2 per cent, largely due to a decline in GST revenues. GST revenues decreased \$0.3 billion, or 4.6 per cent, in spite of a 7.6-per-cent increase in retail sales over the corresponding period. The decline is

largely the result of unusually strong GST growth at this point last year, which fell into line with retail sales growth as the year progressed. GST growth is expected to become consistent with retail sales growth as the year progresses. Weak GST growth to date also reflects weak growth in GST on imports over the April to May period. Custom import duties were up marginally by 0.8 per cent or \$4 million. Sales and excise taxes were down \$0.1 billion, while revenues from the Air Travellers Security Charge were up \$4 million.

- EI premiums were down 7.0 per cent, reflecting the reduction in the premium rate in January 2006.
- Other revenues were down \$47 million, or 1.7 per cent.

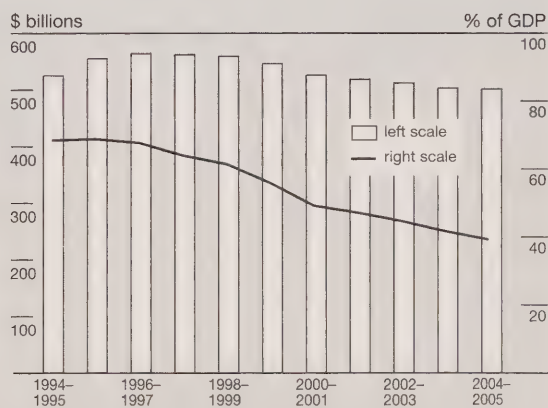
Program expenses in the April to May 2006 period were \$28.4 billion, up \$0.7 billion, or 2.4 per cent, over the same period of 2005–06, with the increase largely attributable to higher subsidies and transfers. Public debt charges declined by \$0.1 billion.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Transfer payments, which account for over two-thirds of total program expenses, increased by \$0.5 billion, or 2.9 per cent.

- Transfers to persons advanced by 0.6 per cent. Elderly benefits were up 4.5 per cent, while EI benefits were down by 8.8 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06.
- Transfers to other levels of government were up \$0.2 billion, or 3.9 per cent, reflecting the impact of the 2004 agreement on health care.
- Subsidies and other transfers increased by 6.9 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 1.3 per cent. This growth was due to increases in Crown corporation expenses and Defence spending, partially offset by a decrease in spending by all other departmental and agencies.

Public debt charges were down 1.8 per cent compared to the same period last year, due to a decline in the stock of interest-bearing debt.

## **Financial source of \$2.8 billion for April to May 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$0.5 billion in the April to May period, down \$3.2 billion from the requirement in the same period of 2005–06.

With a budgetary surplus of \$3.3 billion and a net requirement of \$0.5 billion from non-budgetary transactions, there was a financial source of \$2.8 billion in the first two months of 2006–07 compared to a financial requirement of \$1.9 billion from the same period last year.



### **Net financing activities down \$10.0 billion**

The government used this financial source of \$2.8 billion and a reduction in its cash balances of \$7.2 billion to reduce its market debt by \$10.0 billion by the end of May 2006, largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at \$10.8 billion.

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	May		April to May	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	17,365	18,268	35,253	37,225
Expenses				
Program expenses	-14,060	-14,765	-27,714	-28,366
Public debt charges	-2,893	-2,857	-5,671	-5,571
Budgetary balance (deficit/surplus)	412	646	1,868	3,288
<b>Non-budgetary transactions</b>	2,779	3,380	-3,721	-472
<b>Financial source/requirement</b>	3,191	4,026	-1,853	2,816
<b>Net change in financing activities</b>	3,758	2,224	-4,390	-9,988
<b>Net change in cash balances</b>	6,949	6,250	-6,243	-7,172
<b>Cash balance at end of period</b>			10,878	10,757

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	May			April to May		
	2005	2006	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,335	8,212	12.0	15,652	17,723	13.2
Corporate income tax	2,440	2,941	20.5	4,844	5,274	8.9
Other income tax revenue	340	336	-1.2	574	666	16.0
Total income tax	10,115	11,489	13.6	21,070	23,663	12.3
Excise taxes and duties						
Goods and services tax	3,093	2,693	-12.9	5,812	5,547	-4.6
Customs import duties	273	223	-18.3	514	518	0.8
Sales and excise taxes	807	723	-10.4	1,557	1,484	-4.7
Air Travellers Security Charge	29	31	6.9	62	66	6.5
Total excise taxes and duties	4,202	3,670	-12.7	7,945	7,615	-4.2
Total tax revenues	14,317	15,159	5.9	29,015	31,278	7.8
<b>Employment Insurance premiums</b>	1,707	1,581	-7.4	3,461	3,217	-7.0
<b>Other revenues</b>	1,341	1,528	13.9	2,777	2,730	-1.7
<b>Total budgetary revenues</b>	17,365	18,268	5.2	35,253	37,225	5.6

Note: Totals may not sum due to rounding.

Table 3

## Budgetary expenses

	May		Change	April to May		Change
	2005	2006		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,396	2,506	4.6	4,798	5,012	4.5
Employment Insurance benefits	1,366	1,052	-23.0	2,526	2,303	-8.8
Child tax benefits	772	798	3.4	1,547	1,608	3.9
Total	4,534	4,356	-3.9	8,871	8,923	0.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	3,167	3,357	6.0
Canada Social Transfer	685	708	3.4	1,371	1,417	3.4
Total	2,268	2,386	5.2	4,538	4,774	5.2
Fiscal transfers	1,228	1,285	4.6	2,178	2,213	1.6
Canada's cities and communities	0	0	n/a	0	0	n/a
Alternative Payments for Standing Programs	-254	-268	5.5	-508	-537	5.7
Total	3,242	3,403	5.0	6,208	6,450	3.9
Subsidies and other transfers						
Agriculture	340	463	36.2	476	537	12.8
Foreign Affairs and International Trade	116	409	252.6	382	435	13.9
Health	171	205	19.9	274	312	13.9
Human Resources Development	206	295	43.2	323	389	20.4
Indian and Northern Development	296	316	6.8	970	974	0.4
Industry and Regional Development	88	72	-18.2	207	180	-13.0
Other	274	284	3.6	762	801	5.1
Total	1,491	2,044	37.1	3,394	3,628	6.9
Total transfer payments	9,267	9,803	5.8	18,473	19,001	2.9
<b>Other program expenses</b>						
Crown corporation and foundation expenses						
Canadian Broadcasting Corporation	75	115	53.3	280	330	17.9
Canada Mortgage and Housing Corporation	219	190	-13.2	368	380	3.3
Other	385	413	7.3	799	807	1.0
Total	679	718	5.7	1,447	1,517	4.8
Defence	1,068	1,119	4.8	1,884	2,153	14.3
All other departments and agencies	3,046	3,125	2.6	5,910	5,695	-3.6
Total other program expenses	4,793	4,962	3.5	9,241	9,365	1.3
<b>Total program expenses</b>	14,060	14,765	5.0	27,714	28,366	2.4
<b>Public debt charges</b>	2,893	2,857	-1.2	5,671	5,571	-1.8
<b>Total budgetary expenses</b>	16,953	17,622	3.9	33,385	33,937	1.7

Note: Totals may not sum due to rounding.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial source/requirement

	May		April to May	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	412	646	1,868	3,288
<b>Non-budgetary transactions</b>				
Capital investing activities	8	37	116	12
Other investing activities	40	-35	-368	520
Pension and other accounts	-253	-397	-821	-176
Other activities				
Accounts payable, receivables, accruals and allowances	2,847	3,151	-3,920	-2,772
Foreign exchange activities	-105	412	773	1,470
Amortization of tangible capital assets	242	212	499	474
Total other activities	2,984	3,775	-2,648	-828
<b>Total non-budgetary transactions</b>	2,779	3,380	-3,721	-472
<b>Net financial source/requirement</b>	3,191	4,026	-1,853	2,816

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	May		April to May	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	3,191	4,026	-1,853	2,816
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transaction				
Canadian currency borrowings				
Marketable bonds	2,776	758	1,667	1,061
Treasury bills	1,200	2,800	-4,500	-7,700
Canada Savings Bonds	-78	-43	-139	-126
Other	0	-285	0	-345
Total	3,898	3,230	-2,972	-7,110
Foreign currency borrowings	-195	-948	-1,424	-2,776
Total	3,703	2,282	-4,396	-9,886
Cross currency swap revaluation	0	0	0	-2
Unamortized discounts on debt issues	55	-57	6	-85
Obligations related to capital leases	0	-1	0	-15
<b>Net change in financing activities</b>	3,758	2,224	-4,390	-9,988
<b>Change in cash balance</b>	6,949	6,250	-6,243	-7,172

Note: Totals may not sum due to rounding.

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July 2006

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### June 2006: budgetary surplus of \$2.2 billion

There was a budgetary surplus of \$2.2 billion in June 2006, up \$0.7 billion from the surplus in June 2005. Revenues increased by \$1.5 billion due mainly to strong growth in income tax revenues. Program expenses increased by \$0.7 billion, primarily reflecting increases in other program expenses, notably defence spending. Public debt charges were up \$0.1 billion.

### April to June 2006: budgetary surplus of \$5.4 billion

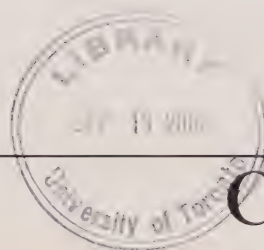
For the first three months of the 2006–07 fiscal year, the budgetary surplus is estimated at \$5.4 billion, up \$2.1 billion from the \$3.3-billion surplus posted in the same period of 2005–06. Revenues were up \$3.4 billion, reflecting strong growth in income tax revenues, slightly offset by a decline in excise taxes and duties and employment insurance (EI) premiums. Program expenses were up \$1.3 billion, or 3.2 per cent, due to both higher transfers and increased other program expenses. Public debt charges were down slightly.

It should be noted that more than two-thirds of the \$14.3 billion in tax reductions and expenditure increases for 2006–07 announced in the 2006 budget, including the goods and services tax (GST) reduction and the introduction of the Universal Child Care Benefit, which did not come into effect until July 1, are not reflected in the monthly results to date. Therefore the fiscal results to date are not representative of the developments expected over the remainder of 2006–07.

### Quarterly update of 2006–07 surplus projection: surplus expected to somewhat exceed Budget 2006 projection of \$3.6 billion

Since the May budget, there have been a number of economic and fiscal developments that influence the outlook for 2006–07. In particular, preliminary year-end results for 2005–06 and data for the first three months of this fiscal year are now available.

Although final audited 2005–06 results will not be available until the fall, preliminary 2005–06 results and year-to-date revenue and expense data suggest that the budgetary surplus for 2006–07 will somewhat exceed the Budget 2006 projection of \$3.6 billion. The degree to which the actual surplus for 2006–07 differs from the Budget 2006 projection will depend on the final audited outcome for 2005–06, the carry-forward of these results to 2006–07, and economic developments through the remainder of this fiscal year.



# The Fiscal Monitor

## June 2006

There was a budgetary surplus of \$2.2 billion in June 2006, up \$0.7 billion from June 2005.

Budgetary revenues increased by \$1.5 billion, or 8.1 per cent, to \$19.3 billion.

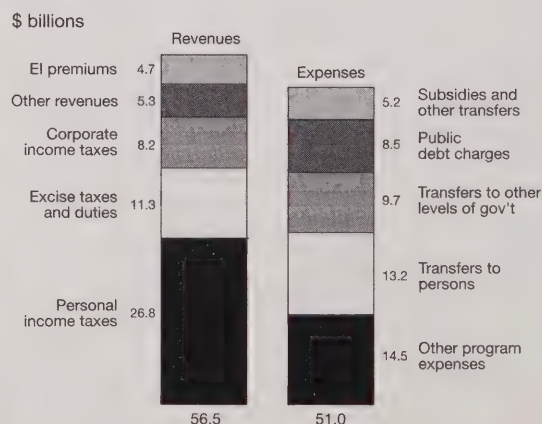
- Personal income tax revenues were up \$1.1 billion, or 13.3 per cent. This reflects solid growth in employment and wages and salaries as well as strong growth in tax revenues relative to this base, which in turn reflects the interaction of real income gains and the progressivity of the tax system.
- Corporate income tax revenues rose \$139 million, or 4.9 per cent, in June following a 20.5-per-cent increase in May.
- Other income tax revenues—withholdings from non-residents—increased by \$27 million, or 8.6 per cent.
- Excise taxes and duties were up \$167 million, or 4.7 per cent. This increase is largely due to a \$169-million, or 7.1-per-cent, rise in GST revenues, following a 12.9-per-cent decrease in GST revenues in May.
- EI premiums were down 7.6 per cent, reflecting both the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues, revenues of certain foundations and miscellaneous revenues, were up \$0.2 billion. This component of revenues can be volatile on a monthly basis.

Program expenses were \$14.2 billion in June 2006, up \$0.7 billion, or 4.8 per cent, from June 2005, reflecting increases in other program expenses, notably defence spending.

Transfer payments were up \$68 million, or 0.8 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and child tax benefits, were up \$81 million, or 1.9 per cent. Elderly benefits increased 4.7 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased 6.0 per cent, reflecting declines in regular and maternity benefits. Child tax benefits were up 3.7 per cent.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were down \$132 million, or 4.0 per cent, reflecting a decline in fiscal transfers, slightly offset by an increase in federal transfers in support of health and other social programs.

**Revenues and expenses**  
(April-June 2006)





- Subsidies and other transfers increased by \$119 million, or 8.0 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations, the expenses of certain foundations, and operating expenses for departments and agencies, including National Defence. They also reflect the ongoing assessment of the Government's liabilities. On a year-over-year basis, these expenses increased \$0.6 billion, or 12.9 per cent, with higher defence expenses responsible for roughly half of this increase.

Public debt charges increased by \$71 million.

## April to June 2006

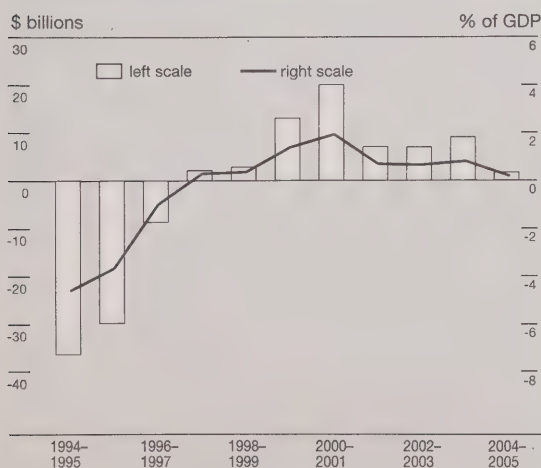
In the first three months of the 2006–07 fiscal year, there was a budgetary surplus of \$5.4 billion, \$2.1 billion higher than the \$3.3-billion surplus reported for the same period of 2005–06.

Budgetary revenues were up \$3.4 billion, or 6.4 per cent, to \$56.5 billion.

- Personal income tax revenues rose \$3.1 billion, or 13.3 per cent, reflecting ongoing growth in employment and wages and salaries, combined with the progressivity of the personal income tax system.

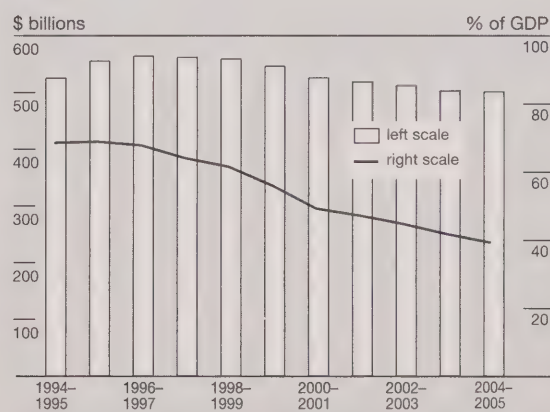
- Corporate income tax revenues were up \$0.6 billion, or 7.4 per cent, reflecting a higher corporate instalment payment base, which in turn reflects profit growth in 2005. While the accelerated elimination of the federal capital tax announced in Budget 2006 was retroactive to January 2006, it is not yet reflected in corporate income tax collections. The measure should be reflected in instalment payments in the coming months.
- Other income tax revenues increased by \$0.1 billion, or 13.4 per cent.
- Excise taxes and duties declined by \$0.2 billion, or 1.4 per cent, due to declines in GST and sales and excise tax revenues. GST revenues decreased \$0.1 billion, or 1.2 per cent, compared to an increase of almost 9 per cent in retail sales over the corresponding period. This weakness is largely the result of unusually strong GST growth during the same period last year, as well as weak growth in GST on imports over the April to June 2006 period. The growth in net GST receipts is expected to move more into line with that of retail sales as the year progresses, abstracting from the impact of the reduction in the tax rate. Sales and excise taxes were down \$0.1 billion, or 3.5 per cent, while customs import duties and revenues from the Air Travellers Security Charge were up \$10 million and \$6 million respectively.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- EI premiums were down 7.2 per cent, reflecting the reduction in the premium rate on January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues rose \$127 million, or 3.0 per cent.

Program expenses in the April to June 2006 period were \$42.6 billion, up \$1.3 billion or 3.2 per cent from the same period of 2005–06, largely due to higher transfers and increased defence spending. Public debt charges declined by \$30 million.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$0.6 billion, or 2.2 per cent.

- Transfers to persons advanced by 1.0 per cent. Elderly benefits were up 4.5 per cent while EI benefits were down 8.0 per cent. The year-to-date decline in EI benefits is mainly due to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06. Maternity benefits are also down year-to-date, reflecting the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province.
- Transfers to other levels of government were up \$0.1 billion, or 1.1 per cent, largely due to the impact of the 2004 agreement on health care.
- Subsidies and other transfers increased by \$0.4 billion, or 7.2 per cent, reflecting the impact of recent budget measures.

Other program expenses increased by \$0.7 billion, or 5.2 per cent, mainly due to a \$0.6-billion, or 20.1-per-cent, increase in defence spending.

Public debt charges were down 0.4 per cent due to a decline in the stock of interest-bearing debt.

## **Financial source of \$0.3 billion for April to June 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.1 billion in the April to June 2006 period, down \$3.5 billion from the \$8.7-billion requirement in the same period of 2005–06.

With a budgetary surplus of \$5.4 billion and a net requirement of \$5.1 billion from non-budgetary transactions, there was a financial source of \$0.3 billion in the first three months of 2006–07 compared to a financial requirement of \$5.4 billion in the same period of 2005–06.

## **Net financing activities down \$15.5 billion**

The Government used this financial source of \$0.3 billion and a reduction in its cash balances of \$15.2 billion to reduce its market debt by \$15.5 billion by the end of June 2006, largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June stood at \$2.7 billion.

## Quarterly update of the fiscal outlook for 2006–07

This section provides a qualitative update of the fiscal outlook for 2006–07 based on preliminary fiscal results for 2005–06 and fiscal data for the current fiscal year to date. A full and comprehensive update of the fiscal outlook will be provided in the fall Economic and Fiscal Update, which will incorporate the final audited results for 2005–06 presented in the *Annual Financial Report of the Government of Canada* and the most recent economic outlook by private sector economists.

### Overview

The budgetary surplus for 2006–07 is now expected to somewhat exceed the Budget 2006 projection of \$3.6 billion, reflecting lower expected program expenses. Total revenues are expected to be largely unchanged from the Budget 2006 outlook.

### Economic outlook

Based on the June survey of private sector economic forecasters, the outlook for real gross domestic product (GDP) growth has been revised up marginally to 3.1 per cent in 2006 and 2.8 per cent in 2007, but the forecast for GDP inflation has dropped significantly this year. As a result, nominal GDP growth in 2006 has been revised down to 5.2 per cent from 6.0 per cent projected in Budget 2006. Nominal GDP growth in 2007 has been revised up slightly from 4.6 per cent to 4.8 per cent. A new survey of private sector forecasters will be conducted in September, after the release of the second-quarter National Accounts, and the revised economic outlook will be used to update the fiscal projections to be presented in the fall Economic and Fiscal Update.

### Fiscal outlook

The budgetary surplus for 2006–07 is currently expected to somewhat exceed the Budget 2006 projection of \$3.6 billion. The improvement reflects lower expected program expenses, largely due to lower estimated program expenses for the 2005–06 fiscal year. Total revenues are expected to be largely unchanged from the Budget 2006 outlook. The degree to which the actual surplus for 2006–07 exceeds the Budget 2006 projection will depend on the final audited outcome for 2005–06, the carry-forward of lower program expenses to 2006–07, and economic developments through the remainder of this fiscal year.

Based on results through March 2006, corporate income taxes are expected to be weaker than projected in the 2006 budget, and this weakness is expected to carry forward into 2006–07. Personal income tax revenues are expected to be stronger than projected in the 2006 budget. Monthly financial results for the April to June period indicate that the strong growth in personal income tax receipts seen last year is continuing so far this year, reflecting strong growth in employment and wages and salaries combined with the progressivity of the personal income tax system.

The results for 2005–06 must still be finalized and audited, and will be published in the *Annual Financial Report of the Government of Canada* in the fall. A comprehensive update of the fiscal outlook for this year and beyond will be provided in the fall Economic and Fiscal Update.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	June		April to June	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	17,806	19,256	53,058	56,480
Expenses				
Program expenses	-13,533	-14,188	-41,246	-42,554
Public debt charges	-2,845	-2,916	-8,517	-8,487
Budgetary balance (deficit/surplus)	1,428	2,152	3,295	5,439
<b>Non-budgetary transactions</b>	-4,937	-4,660	-8,661	-5,130
<b>Financial source/requirement</b>	-3,509	-2,508	-5,366	309
<b>Net change in financing activities</b>	-3,926	-5,501	-8,317	-15,490
<b>Net change in cash balances</b>	-7,435	-8,009	-13,683	-15,181
<b>Cash balance at end of period</b>			3,441	2,749

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	June			April to June		
	2005	2006	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,035	9,103	13.3	23,688	26,827	13.3
Corporate income tax	2,836	2,975	4.9	7,680	8,249	7.4
Other income tax revenue	313	340	8.6	887	1,006	13.4
Total income tax	11,184	12,418	11.0	32,255	36,082	11.9
Excise taxes and duties						
Goods and services tax	2,383	2,552	7.1	8,195	8,100	-1.2
Customs import duties	282	289	2.5	797	807	1.3
Sales and excise taxes	846	836	-1.2	2,404	2,319	-3.5
Air Travellers Security Charge	28	29	3.6	90	96	6.7
Total excise taxes and duties	3,539	3,706	4.7	11,486	11,322	-1.4
Total tax revenues	14,723	16,124	9.5	43,741	47,404	8.4
<b>Employment insurance premiums</b>	1,645	1,520	-7.6	5,105	4,737	-7.2
<b>Other revenues</b>	1,438	1,612	12.1	4,212	4,339	3.0
<b>Total budgetary revenues</b>	17,806	19,256	8.1	53,058	56,480	6.4

Note: Totals may not sum due to rounding.

Table 3

## Budgetary expenses

	June		Change	April to June		Change
	2005	2006		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,405	2,518	4.7	7,203	7,530	4.5
Employment insurance benefits	995	935	-6.0	3,520	3,238	-8.0
Child tax benefits	757	785	3.7	2,304	2,392	3.8
Total	4,157	4,238	1.9	13,027	13,160	1.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	4,750	5,035	6.0
Canada Social Transfer	685	708	3.4	2,056	2,125	3.4
Total	2,268	2,386	5.2	6,806	7,160	5.2
Fiscal transfers	1,320	1,084	-17.9	3,498	3,296	-5.8
Canada's cities and communities	0	0	n/a	0	0	n/a
Alternative Payments for Standing Programs	-254	-268	5.5	-761	-805	5.8
Total	3,334	3,202	-4.0	9,543	9,651	1.1
Subsidies and other transfers						
Agriculture	168	132	-21.4	644	669	3.9
Foreign Affairs and International Trade	125	94	-24.8	507	529	4.3
Health	136	102	-25.0	410	414	1.0
Human Resources Development	134	110	-17.9	457	499	9.2
Indian and Northern Development	360	318	-11.7	1,330	1,292	-2.9
Industry and Regional Development	221	172	-22.2	428	351	-18.0
Other	335	670	100.0	1,099	1,472	33.9
Total	1,479	1,598	8.0	4,875	5,226	7.2
Total transfer payments	8,970	9,038	0.8	27,445	28,037	2.2
<b>Other program expenses</b>						
Crown corporation and foundation expenses						
Canadian Broadcasting Corporation	75	85	13.3	355	415	16.9
Canada Mortgage and Housing Corporation	150	88	-41.3	518	468	-9.7
Other	322	347	7.8	1,123	1,151	2.5
Total	547	520	-4.9	1,996	2,034	1.9
Defence	1,012	1,324	30.8	2,896	3,477	20.1
All other departments and agencies	3,004	3,306	10.1	8,909	9,006	1.1
Total other program expenses	4,563	5,150	12.9	13,801	14,517	5.2
<b>Total program expenses</b>	13,533	14,188	4.8	41,246	42,554	3.2
<b>Public debt charges</b>	2,845	2,916	2.5	8,517	8,487	-0.4
<b>Total budgetary expenses</b>	16,378	17,104	4.4	49,763	51,041	2.6

Note: Totals may not sum due to rounding.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial source/requirement

	June		April to June	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,428	2,152	3,295	5,439
<b>Non-budgetary transactions</b>				
Capital investing activities	-2,724	-125	-2,608	-112
Other investing activities	-202	-68	-569	452
Pension and other accounts	-112	1,134	-936	958
Other activities				
Accounts payable, receivables, accruals and allowances	-1,947	-5,430	-5,868	-8,201
Foreign exchange activities	-184	-393	589	1,078
Amortization of tangible capital assets	232	222	731	695
Total other activities	-1,899	-5,601	-4,548	-6,428
<b>Total non-budgetary transactions</b>	-4,937	-4,660	-8,661	-5,130
<b>Net financial source/requirement</b>	-3,509	-2,508	-5,366	309

Note: Totals may not sum due to rounding.

Table 5

## Financial source/requirement and net financing activities

	June		April to June	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	-3,509	-2,508	-5,366	309
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-3,303	-2,961	-1,636	-1,899
Treasury bills	-400	-1,900	-4,900	-9,600
Canada Savings Bonds	-81	-92	-220	-218
Other	-139	-341	-139	-687
Total	-3,923	-5,294	-6,895	-12,404
Foreign currency borrowings	44	-46	-1,380	-2,823
Total	-3,879	-5,340	-8,275	-15,227
Cross currency swap revaluation	-1	0	-1	-2
Unamortized discounts on debt issues	-44	-142	-39	-227
Obligations related to capital leases	-2	-19	-2	-34
<b>Net change in financing activities</b>	-3,926	-5,501	-8,317	-15,490
<b>Change in cash balance</b>	-7,435	-8,009	-13,683	-15,181

Note: Totals may not sum due to rounding.

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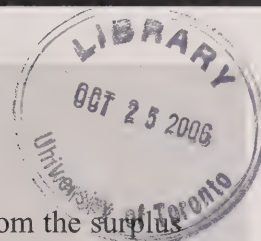
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August 2006



# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### July 2006: budgetary surplus of \$0.8 billion

There was a budgetary surplus of \$0.8 billion in July 2006, down \$0.9 billion from the surplus in July 2005. Revenues increased by \$0.7 billion, reflecting solid growth in personal income tax revenues, combined with low growth in goods and services tax (GST) revenues and declines in employment insurance (EI) premium and corporate income tax revenues. Program expenses increased by \$1.5 billion, reflecting increases in transfers to persons, which now include payments under the new Universal Child Care Benefit (UCCB) program, and increases in transfers to other levels of government. Public debt charges were up \$0.1 billion.

### April to July 2006: budgetary surplus of \$6.3 billion

For the first four months of the 2006–07 fiscal year, the budgetary surplus is estimated at \$6.3 billion, up \$1.2 billion from the \$5.1-billion surplus posted in the same period of 2005–06. Revenues were up \$4.2 billion, or 5.8 per cent, driven by strong growth in income tax revenues, slightly offset by declines in EI premium revenues, sales and excise taxes and GST revenues. Program expenses were up \$2.8 billion, or 5.1 per cent, due to both higher transfers and other program expenses. Public debt charges were up \$0.1 billion.

The results to date do not include a significant portion of the \$14.3 billion in tax reductions and expenditure increases for 2006–07 announced in the May 2006 budget. July represents only the first month of benefit payments under the new UCCB program (\$181 million in July), which is expected to cost \$1.6 billion over the full fiscal year, and the first month of the 1-percentage-point reduction in the GST rate, expected to cost \$3.5 billion over the fiscal year. In addition, other spending measures have yet to come on stream.

## July 2006

There was a budgetary surplus of \$0.8 billion in July 2006, down \$0.9 billion from July 2005.

Budgetary revenues increased by \$0.7 billion, or 4.0 per cent, to \$19.2 billion.

- Personal income tax revenues were up \$0.7 billion, or 7.8 per cent, down from an average growth rate of over 13 per cent through the first three months of the fiscal year.
- Corporate income tax revenues were virtually unchanged from July 2005, with a small decrease of 0.4 per cent.
- Other income tax revenues—withholdings from non-residents—were also virtually unchanged, up only 0.5 per cent.



# The Fiscal Monitor

- Excise taxes and duties were up \$0.1 billion, or 2.2 per cent. GST revenues were relatively flat, rising only \$46 million, or 1.7 per cent, reflecting strong growth in retail sales, offset by the impact of the GST rate reduction effective July 1, 2006.
- EI premium revenues declined by 6.6 per cent, reflecting both the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues, revenues of certain foundations and miscellaneous revenues, were up \$0.1 billion. This component of revenues is volatile.

Program expenses in July 2006 were \$15.4 billion, up \$1.5 billion, or 11.0 per cent, from July 2005, reflecting increases in transfer payments, notably transfers to persons and transfers to other levels of government.

Transfer payments were up \$1.5 billion, or 17.1 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were up \$313 million, or 7.3 per cent. Elderly benefits increased by 5.1 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 1.9 per cent, reflecting declines in regular and maternity benefits. Children's benefits consist of the Canada Child Tax Benefit and the new UCCB, which began on July 1, 2006.

Children's benefits were up \$212 million, largely reflecting \$181 million in transfers under the UCCB program.

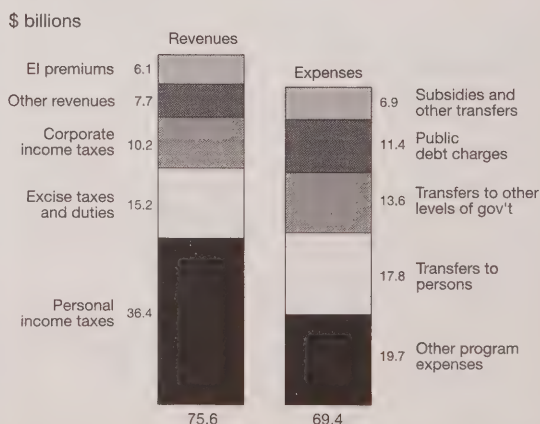
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up \$1.1 billion, or 37.8 per cent. This increase is mainly attributable to an increase in fiscal transfers and a one-time \$650-million transfer to provinces and territories under the Early Learning and Child Care Agreements.
- Subsidies and other transfers, including transfers made by certain foundations, increased by \$56 million, or 4.1 per cent, largely reflecting increased assistance to the farming sector.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence. They also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$69 million, or 1.3 per cent.

Public debt charges increased by \$136 million.

## Revenues and expenses

(April to July 2006)





## April to July 2006

In the first four months of the 2006–07 fiscal year, there was a budgetary surplus of \$6.3 billion, up \$1.2 billion from the \$5.1-billion surplus reported for the same period of 2005–06.

Budgetary revenues were up \$4.2 billion, or 5.8 per cent, to \$75.6 billion.

- Personal income tax revenues rose \$3.8 billion, or 11.8 per cent, reflecting ongoing growth in employment and wages and salaries combined with the progressivity of the personal income tax system.
- Corporate income tax revenues were up \$0.6 billion, or 5.8 per cent, reflecting a higher corporate installment payment base, which in turn reflects profit growth in 2005.
- Other income tax revenues increased by \$0.1 billion, or 9.2 per cent.
- Excise taxes and duties were down \$0.1 billion, or 0.5 per cent, due to a \$0.1-billion decline in sales and excise taxes and a \$49-million, or 0.4-per-cent, decline in GST revenues, reflecting low growth in imports subject to GST and the impact of the GST rate reduction on July 1, 2006. Customs import duties were up \$76 million and revenues from the Air Travellers Security Charge increased by \$7 million.

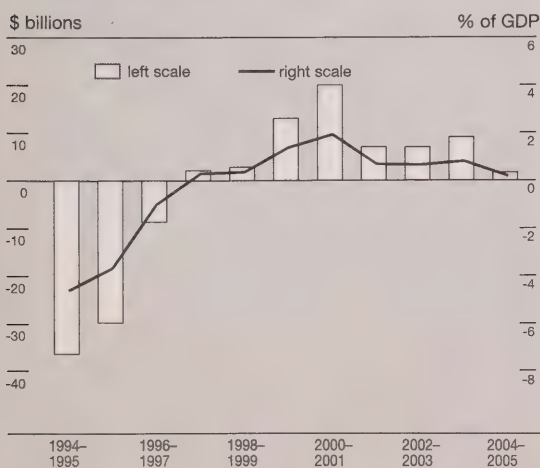
- EI premium revenues declined by 7.1 per cent, reflecting the reduction in the premium rate on January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues rose \$0.2 billion, or 3.1 per cent.

Program expenses in the April to July 2006 period were \$57.9 billion, up \$2.8 billion, or 5.1 per cent, over the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.1 billion.

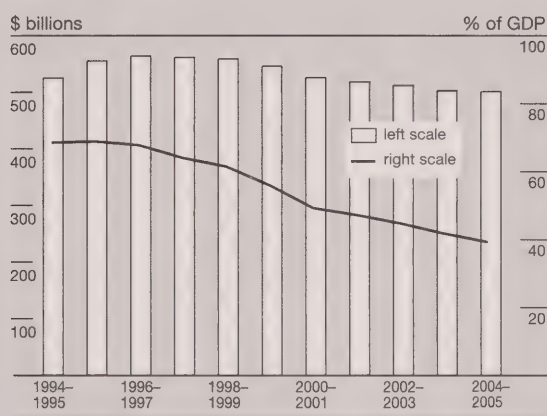
Transfer payments, which account for about two-thirds of total program expenses, increased by \$2.1 billion, or 5.7 per cent.

- Transfers to persons advanced by 2.6 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 6.5 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06. Maternity benefits are also down year-to-date, reflecting the transfer to the province of Quebec of the responsibility for delivering maternity and

## Budgetary balance



## Federal debt (accumulated deficit)





parental benefits in that province. Children's benefits increased by 9.7 per cent, largely reflecting transfers under the new UCCB, which began on July 1, 2006.

- Transfers to other levels of government were up \$1.2 billion, or 9.6 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.4 billion, or 6.5 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by \$0.8 billion, 4.1 per cent, reflecting an increase in the operating costs of departments and agencies, including National Defence. Crown corporation expenses declined by \$0.1 billion, or 2.4 per cent.

Public debt charges were up 0.9 per cent due to an increase in the average effective interest rate on the stock of interest-bearing debt.

## **Financial source of \$2.9 billion for April to July 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital

assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.4 billion in the April to July period, down from a \$10.5-billion requirement in the same period of 2005–06. The decrease in the net requirement largely reflects a number of one-time payments made in 2005–06, such as a \$2.8-billion transfer under the Offshore Revenues Accords made in June 2005 upon passage of the Budget Implementation Act, 2005.

With a budgetary surplus of \$6.3 billion and a net requirement of \$3.4 billion from non-budgetary transactions, there was a financial source of \$2.9 billion in the first four months of 2006–07 compared to a financial requirement of \$5.4 billion in the same period of 2005–06.

## **Net financing activities down \$16.8 billion**

The Government used this financial source of \$2.9 billion and a reduction in its cash balances of \$13.9 billion to reduce its market debt by \$16.8 billion by the end of July 2006, largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at \$4.0 billion.

Table 1  
Summary statement of transactions

	July		April to July	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	18,416	19,151	71,475	75,630
Expenses				
Program expenses	-13,853	-15,373	-55,101	-57,927
Public debt charges	-2,802	-2,938	-11,319	-11,425
Budgetary balance (deficit/surplus)	1,761	840	5,055	6,278
<b>Non-budgetary transactions</b>	-1,819	1,771	-10,480	-3,359
<b>Financial source/requirement</b>	-58	2,611	-5,425	2,919
<b>Net change in financing activities</b>	-22	-1,323	-8,339	-16,813
<b>Net change in cash balances</b>	-80	1,288	-13,764	-13,894
<b>Cash balance at end of period</b>			3,361	4,040

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	July			April to July		
	2005	2006	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,896	9,590	7.8	32,584	36,417	11.8
Corporate income tax	1,997	1,990	-0.4	9,677	10,239	5.8
Other income tax	428	430	0.5	1,315	1,436	9.2
Total income tax	11,321	12,010	6.1	43,576	48,092	10.4
Excise taxes and duties						
Goods and services tax	2,719	2,765	1.7	10,914	10,865	-0.4
Customs import duties	249	315	26.5	1,046	1,122	7.3
Sales and excise taxes	817	787	-3.7	3,221	3,106	-3.6
Air Travellers Security Charge	30	31	3.3	120	127	5.8
Total excise taxes and duties	3,815	3,898	2.2	15,301	15,220	-0.5
Total tax revenues	15,136	15,908	5.1	58,877	63,312	7.5
<b>Employment insurance premiums</b>	1,461	1,365	-6.6	6,566	6,102	-7.1
<b>Other revenues</b>	1,819	1,878	3.2	6,032	6,216	3.1
<b>Total budgetary revenues</b>	18,416	19,151	4.0	71,475	75,630	5.8

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	July		Change	April to July		Change
	2005	2006		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,371	2,493	5.1	9,574	10,023	4.7
Employment insurance benefits	1,108	1,087	-1.9	4,628	4,325	-6.5
Children's benefits	803	1,015	26.4	3,107	3,407	9.7
Total	4,282	4,595	7.3	17,309	17,755	2.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	6,333	6,713	6.0
Canada Social Transfer	686	708	3.2	2,742	2,833	3.3
Total	2,269	2,386	5.2	9,075	9,546	5.2
Fiscal transfers	832	1,146	37.7	4,330	4,442	2.6
Canada's cities and communities	0	0	n/a	0	0	n/a
Early learning and child care	0	650	n/a	0	650	n/a
Alternative Payments for Standing Programs	-240	-239	-0.4	-1,001	-1,044	4.3
Total	2,861	3,943	37.8	12,404	13,594	9.6
Subsidies and other transfers						
Agriculture	10	81	710.0	654	750	14.7
Foreign Affairs and International Trade	173	178	2.9	680	707	4.0
Health	191	222	16.2	601	636	5.8
Human Resources Development	120	97	-19.2	577	596	3.3
Indian and Northern Development	316	356	12.7	1,646	1,648	0.1
Industry and Regional Development	147	172	17.0	575	523	-9.0
Other	401	308	-23.2	1,726	2,016	16.8
Total	1,358	1,414	4.1	6,459	6,876	6.5
Total transfer payments	8,501	9,952	17.1	36,172	38,225	5.7
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	100	62	-38.0	455	477	4.8
Canada Mortgage and Housing Corporation	186	172	-7.5	704	640	-9.1
Other	336	303	-9.8	1,233	1,218	-1.2
Total	622	537	-13.7	2,392	2,335	-2.4
Defence	1,571	1,354	-13.8	4,467	4,831	8.1
All other departments and agencies	3,159	3,530	11.7	12,070	12,536	3.9
Total other program expenses	5,352	5,421	1.3	18,929	19,702	4.1
<b>Total program expenses</b>	13,853	15,373	11.0	55,101	57,927	5.1
<b>Public debt charges</b>	2,802	2,938	4.9	11,319	11,425	0.9
<b>Total budgetary expenses</b>	16,655	18,311	9.9	66,420	69,352	4.4

Note: Totals may not add due to rounding.



Table 4

## The budgetary balance and financial source/requirement

	July		April to July	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,761	840	5,055	6,278
<b>Non-budgetary transactions</b>				
Capital investing activities	178	-187	19	-299
Other investing activities	-541	11	-1,110	463
Pension and other accounts	-305	-846	-1,241	112
Other activities				
Accounts payable, receivables, accruals and allowances	-3,092	2,974	-11,409	-5,227
Foreign exchange activities	1,679	-431	2,268	647
Amortization of tangible capital assets	262	250	993	945
Total other activities	-1,151	2,793	-8,148	-3,635
<b>Total non-budgetary transactions</b>	-1,819	1,771	-10,480	-3,359
<b>Net financial source/requirement</b>	-58	2,611	-5,425	2,919

Notes: July 2005 results have been adjusted to reflect the reclassification of certain amounts from "Capital investing activities" to "Accounts payable, receivables, accruals and allowances."

Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	July		April to July	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	-58	2,611	-5,425	2,919
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	758	468	-878	-1,431
Treasury bills	1,300	-1,500	-3,600	-11,100
Canada Savings Bonds	-88	-84	-308	-302
Other	-2	-223	-141	-910
Total	1,968	-1,339	-4,927	-13,743
Foreign currency borrowings	-2,124	-86	-3,504	-2,909
Total	-156	-1,425	-8,431	-16,652
Cross-currency swap revaluation	-4	2	-5	0
Unamortized discounts on debt issues	66	106	27	-121
Obligations related to capital leases	72	-6	70	-40
<b>Net change in financing activities</b>	-22	-1,323	-8,339	-16,813
<b>Change in cash balance</b>	-80	1,288	-13,764	-13,894

Note: Totals may not add due to rounding.



# The Fiscal Monitor

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## Highlights

### August 2006: budgetary surplus of \$6 million

There was a budgetary surplus of \$6 million in August 2006, compared to a \$0.6-billion deficit in August 2005. Revenues increased by \$1.1 billion, driven by strong growth in income tax revenues, partially offset by a drop in goods and services tax (GST) revenues, reflecting the cut to the GST rate on July 1, 2006. Program expenses increased by \$0.5 billion, or 3.6 per cent, reflecting increases in transfers to persons, which now include payments under the new Universal Child Care Benefit (UCCB) program. Public debt charges were down \$17 million.

### April to August 2006: budgetary surplus of \$6.7 billion

For the first five months of the 2006–07 fiscal year, the budgetary surplus is estimated at \$6.7 billion, up \$2.0 billion from the \$4.8-billion surplus in the same period of 2005–06. Revenues were up \$5.2 billion, or 6.0 per cent, driven by strong growth in income tax revenues, slightly offset by declines in excise tax and employment insurance (EI) premium revenues. Program expenses were up \$3.2 billion, or 4.6 per cent, due to both higher transfers and other program expenses. Public debt charges were up \$0.1 billion.

The results to date are not representative of results expected for the fiscal year as a whole, as they do not yet reflect the full impact of the measures announced in Budget 2006. A full and complete update of the fiscal outlook will be provided in the upcoming *Economic and Fiscal Update*.

### August 2006

There was a budgetary surplus of \$6 million in August 2006, compared to a \$0.6-billion deficit in August 2005.

Budgetary revenues increased by \$1.1 billion, or 6.6 per cent, to \$17.1 billion.

- Personal income tax revenues were up \$0.5 billion, or 6.6 per cent, reflecting growth in employment and wages and salaries.
- Corporate income tax revenues increased by \$0.7 billion, or 52.4 per cent, in part reflecting higher payments from the resource sector.
- Other income tax revenues—withholdings from non-residents—rose \$0.2 billion, or 61.2 per cent.
- Excise taxes and duties were down \$0.4 billion, driven by a \$0.5-billion or 18.7-per-cent drop in GST revenues, reflecting the impact of the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premiums declined by 6.7 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.





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- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues, revenues of certain foundations and miscellaneous revenues, were up \$0.3 billion. This component of revenues is volatile.

Program expenses in August 2006 were \$14.3 billion, up \$0.5 billion or 3.6 per cent from August 2005, largely reflecting increases in transfers to persons and increased operating expenses of National Defence and other departments.

Transfer payments were up \$0.3 billion, or 3.6 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were up \$308 million, or 7.1 per cent. Elderly benefits increased by 4.9 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 1.7 per cent, reflecting declines in regular and maternity benefits. Children's benefits consist of the Canada Child Tax Benefit and the new UCCB, which began on July 1, 2006. Children's benefits were up \$210 million, largely reflecting \$197 million in transfers under the UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were down \$39 million, or 1.2 per cent.
- Subsidies and other transfers increased by \$47 million, or 3.7 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence. They also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$187 million, or 3.7 per cent.

Public debt charges decreased by \$17 million.

## April to August 2006

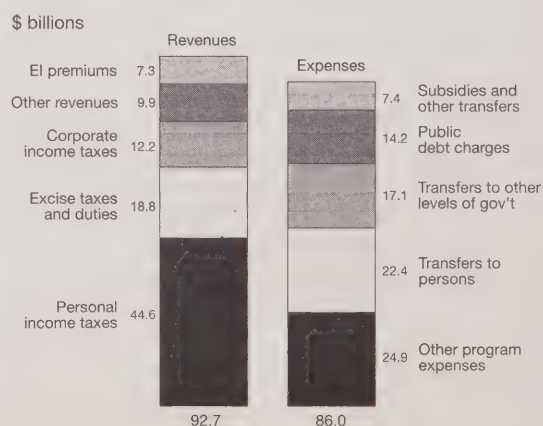
In the first five months of the 2006–07 fiscal year, there was a budgetary surplus of \$6.7 billion, up \$2.0 billion from the \$4.8-billion surplus reported in the same period of 2005–06.

Budgetary revenues were up \$5.2 billion, or 6.0 per cent, to \$92.7 billion.

- Personal income tax revenues rose \$4.3 billion, or 10.8 per cent, reflecting solid growth in employment and wages and salaries combined with the progressivity of the personal income tax system.
- Corporate income tax revenues were up \$1.2 billion, or 11.2 per cent, reflecting a higher corporate instalment payment base and lower refunds to date, which in turn reflect profit growth in 2005 and ongoing gains in corporate profitability this year.
- Other income tax revenues rose \$0.3 billion, or 17.8 per cent.

## Revenues and expenses

(April to August 2006)



- Excise taxes and duties were down \$0.5 billion, or 2.7 per cent, primarily due to a \$0.6-billion drop in GST revenues, reflecting the impact of the GST rate reduction on July 1, 2006. Sales and excise tax revenues were also lower, declining by \$0.1 billion, or 1.4 per cent. Customs import duties were up \$0.1 billion while revenues from the Air Travellers Security Charge were up \$6 million.
- EI premium revenues decreased by 7.0 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.
- Other revenues rose \$0.4 billion, or 5.8 per cent.

Program expenses in the April to August 2006 period were \$71.8 billion, up \$3.2 billion or 4.6 per cent from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.1 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$2.2 billion, or 5.0 per cent.

- Transfers to persons advanced by 3.5 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 5.6 per cent.

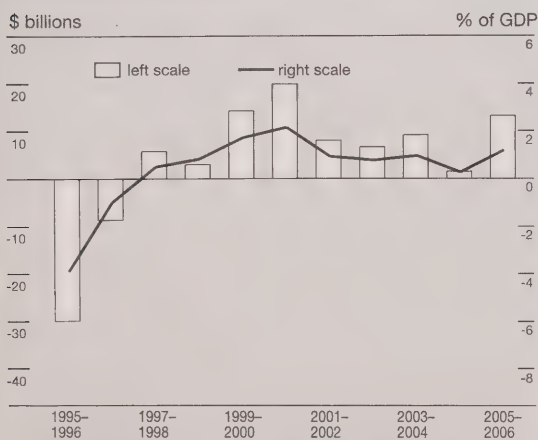
The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06. Maternity and parental benefits are also down year-to-date due to the implementation of the Quebec Parental Insurance Plan, effective January 1, 2006. Children's benefits increased by 13.3 per cent, largely reflecting transfers under the new UCCB, which began on July 1, 2006.

- Transfers to other levels of government were up \$1.5 billion, or 9.3 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$5 million, or 0.1 per cent.

Other program expenses increased by \$1.0 billion, or 4.0 per cent, reflecting an increase in the operating costs of departments and agencies, including National Defence. Crown corporation expenses declined by \$0.1 billion, or 4.1 per cent.

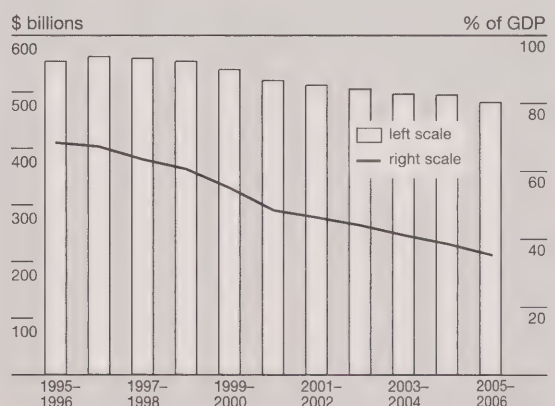
Public debt charges were up 0.6 per cent due to an increase in the average effective interest rate on the stock of interest-bearing debt.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

## **Financial source of \$4.1 billion for April to August 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$2.6 billion in the April to August period, down from a \$10.2-billion requirement in the same period of 2005–06. The decrease in the net requirement largely reflects a number of one-time payments, such as a \$2.8-billion transfer under the Offshore Revenues Accords made in June 2005 upon passage of the Budget Implementation Act, 2005.

With a budgetary surplus of \$6.7 billion and a net requirement of \$2.6 billion from non-budgetary transactions, there was a financial source of \$4.1 billion in the first five months of 2006–07 compared to a financial requirement of \$5.4 billion in the same period of 2005–06.

## **Net financing activities down \$17.8 billion**

The Government used this financial source of \$4.1 billion and a reduction in its cash balances of \$13.7 billion to reduce its market debt by \$17.8 billion by the end of August 2006, largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of August stood at \$4.3 billion.



Table 1

## Summary statement of transactions

	August		April to August	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,048	17,115	87,522	92,747
Expenses				
Program expenses	-13,839	-14,342	-68,649	-71,828
Public debt charges	-2,784	-2,767	-14,103	-14,192
Budgetary balance (deficit/surplus)	-575	6	4,770	6,727
<b>Non-budgetary transactions</b>	562	1,210	-10,206	-2,586
<b>Financial source/requirement</b>	-13	1,216	-5,436	4,141
<b>Net change in financing activities</b>	3,942	-1,006	-4,397	-17,819
<b>Net change in cash balances</b>	3,929	210	-9,833	-13,678
<b>Cash balance at end of period</b>			7,290	4,253

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	August			April to August		
	2005	2006	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,707	8,217	6.6	40,291	44,634	10.8
Corporate income tax	1,272	1,938	52.4	10,949	12,177	11.2
Other income tax	260	419	61.2	1,575	1,855	17.8
Total income tax	9,239	10,574	14.4	52,815	58,666	11.1
Excise taxes and duties						
Goods and services tax	2,802	2,279	-18.7	13,716	13,144	-4.2
Customs import duties	332	362	9.0	1,378	1,484	7.7
Sales and excise taxes	821	879	7.1	4,042	3,985	-1.4
Air Travellers Security Charge	29	28	-3.4	149	155	4.0
Total excise taxes and duties	3,984	3,548	-10.9	19,285	18,768	-2.7
Total tax revenues	13,223	14,122	6.8	72,100	77,434	7.4
<b>Employment insurance premiums</b>	1,297	1,210	-6.7	7,863	7,312	-7.0
<b>Other revenues</b>	1,528	1,783	16.7	7,559	8,001	5.8
<b>Total budgetary revenues</b>	16,048	17,115	6.6	87,522	92,747	6.0

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	August		Change	April to August		Change
	2005	2006		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,404	2,522	4.9	11,978	12,545	4.7
Employment insurance benefits	1,180	1,160	-1.7	5,808	5,485	-5.6
Children's benefits	739	949	28.4	3,846	4,356	13.3
Total	4,323	4,631	7.1	21,632	22,386	3.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,584	1,679	6.0	7,917	8,392	6.0
Canada Social Transfer	685	709	3.5	3,427	3,542	3.4
Total	2,269	2,388	5.2	11,344	11,934	5.2
Fiscal transfers	1,062	1,081	1.8	5,392	5,523	2.4
Canada's cities and communities	112	0	-100.0	112	306	173.2
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-196	-261	33.2	-1,197	-1,305	9.0
Total	3,247	3,208	-1.2	15,651	17,108	9.3
Subsidies and other transfers						
Agriculture	97	89	-8.2	463	399	-13.8
Foreign Affairs and International Trade	317	138	-56.5	997	845	-15.2
Health	81	82	1.2	682	718	5.3
Human Resources Development	33	86	160.6	610	682	11.8
Indian and Northern Development	338	355	5.0	1,984	2,003	1.0
Industry and Regional Development	211	224	6.2	786	747	-5.0
Other	193	343	77.7	1,919	2,052	6.9
Total	1,270	1,317	3.7	7,441	7,446	0.1
Total transfer payments	8,840	9,156	3.6	44,724	46,940	5.0
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	140	118	-15.7	595	595	0.0
Canada Mortgage and Housing Corporation	142	158	11.3	846	798	-5.7
Other	268	211	-21.3	1,501	1,429	-4.8
Total	550	487	-11.5	2,942	2,822	-4.1
Defence	1,182	1,344	13.7	5,649	6,175	9.3
All other departments and agencies	3,267	3,355	2.7	15,334	15,891	3.6
Total other program expenses	4,999	5,186	3.7	23,925	24,888	4.0
<b>Total program expenses</b>	13,839	14,342	3.6	68,649	71,828	4.6
<b>Public debt charges</b>	2,784	2,767	-0.6	14,103	14,192	0.6
<b>Total budgetary expenses</b>	16,623	17,109	2.9	82,752	86,020	3.9

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	August		April to August	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-575	6	4,770	6,727
<b>Non-budgetary transactions</b>				
Capital investing activities	-136	-114	-117	-413
Other investing activities	170	-47	-940	417
Pension and other accounts	-447	1,358	-1,688	1,482
Other activities				
Accounts payable, receivables, accruals and allowances	1,431	-1,159	-10,266	-6,837
Foreign exchange activities	-728	932	1,540	1,579
Amortization of tangible capital assets	272	240	1,265	1,186
Total other activities	975	13	-7,461	-4,072
<b>Total non-budgetary transactions</b>	562	1,210	-10,206	-2,586
<b>Net financial source/requirement</b>	-13	1,216	-5,436	4,141

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	August		April to August	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	-13	1,216	-5,436	4,141
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transaction				
Canadian currency borrowings				
Marketable bonds	2,261	3,051	1,383	1,620
Treasury bills	1,800	-2,700	-1,800	-13,800
Canada Savings Bonds	-84	-77	-392	-379
Other	-1	-105	-142	-1,015
Total	3,976	169	-951	-13,574
Foreign currency borrowings	-87	-945	-3,591	-3,855
Total	3,889	-776	-4,542	-17,429
Cross-currency swap revaluation	0	-121	-5	-121
Unamortized discounts on debt issues	39	-102	66	-223
Obligations related to capital leases	14	-7	84	-46
<b>Net change in financing activities</b>	3,942	-1,006	-4,397	-17,819
<b>Change in cash balance</b>	3,929	210	-9,833	-13,678

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2006	August 31, 2006	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	101,432	88,630	-12,802
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	262,754	1,620
Treasury bills	131,597	117,797	-13,800
Canada Savings Bonds	17,342	16,963	-379
Other	3,102	2,087	-1,015
Subtotal	413,175	399,601	-13,574
Payable in foreign currencies	14,085	10,230	-3,855
Cross-currency swap revaluation account	-2,258	-2,379	-121
Unamortized discounts and premiums on market debt	-6,780	-7,003	-223
Obligations related to capital leases	2,927	2,881	-46
Total unmaturred debt	421,149	403,330	-17,819
Pension and other accounts			
Public sector pensions	131,062	131,957	895
Other employee and veteran future benefits	43,369	44,031	662
Other pension and other accounts	5,493	5,418	-75
Total pension and other accounts	179,924	181,406	1,482
Total interest-bearing debt	601,073	584,736	-16,337
<b>Total liabilities</b>	<b>702,505</b>	<b>673,366</b>	<b>-29,139</b>
<b>Financial assets</b>			
Cash and accounts receivable	82,843	63,200	-19,643
Foreign exchange accounts	40,827	39,248	-1,579
Loans, investments and advances (net of allowances)	41,889	41,472	-417
<b>Total financial assets</b>	<b>165,559</b>	<b>143,920</b>	<b>-21,639</b>
<b>Net debt</b>	<b>536,946</b>	<b>529,446</b>	<b>-7,500</b>
<b>Non-financial assets</b>	<b>55,447</b>	<b>54,674</b>	<b>-773</b>
<b>Federal debt (accumulated deficit)</b>	<b>481,499</b>	<b>474,772</b>	<b>-6,727</b>

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October 2006

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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2006: budgetary deficit of \$1.4 billion

There was a budgetary deficit of \$1.4 billion in September 2006, compared to a \$0.2-billion surplus in September 2005. Revenues increased by \$0.3 billion, or 2.0 per cent, driven by strong growth in income tax revenues, partially offset by a drop in goods and services tax (GST) revenues, reflecting the cut to the GST rate on July 1, 2006. Program expenses increased by \$1.8 billion, or 13.2 per cent, reflecting increases in transfer payments and departmental operating expenses. Public debt charges were up \$72 million.

### April to September 2006: budgetary surplus of \$5.3 billion

For the first six months of the 2006–07 fiscal year, the budgetary surplus is estimated at \$5.3 billion, up \$0.4 billion from the \$4.9-billion surplus posted in the same period of 2005–06. Revenues were up \$5.6 billion, or 5.3 per cent, driven by strong growth in income tax revenues, slightly offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up \$5.0 billion, or 6.1 per cent, due to both higher transfers and other program expenses. Public debt charges were up \$0.2 billion.

In keeping with the 2006 budget commitment to provide quarterly updates of the fiscal forecast for the current year, an updated forecast will be published in *The Economic and Fiscal Update*.

## September 2006

There was a budgetary deficit of \$1.4 billion in September 2006, compared to a \$0.2-billion surplus in September 2005.

Budgetary revenues increased by \$0.3 billion, or 2.0 per cent, to \$17.0 billion.

- Personal income tax revenues were up \$0.7 billion, or 8.9 per cent, reflecting higher employment and wages and salaries.
- Corporate income tax revenues increased \$0.3 billion, or 14.6 per cent. Corporate income tax revenues can be volatile on a monthly basis, as corporate year-ends are

distributed throughout the year, with a concentration in September through December. As such, large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place several years prior, can influence results in a given month.

- Other income tax revenues—withholdings from non-residents—declined by \$0.1 billion, or 26.5 per cent, reflecting the high level of revenues reported at this time last year.



# The Fiscal Monitor

- Excise taxes and duties were down \$0.3 billion due to an 11.4-per-cent drop in GST revenues, reflecting the impact of the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues declined by 8.2 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, were down \$0.1 billion, or 8.9 per cent, following a 16.7-per-cent gain in August.

Program expenses in September 2006 were \$15.5 billion, up \$1.8 billion, or 13.2 per cent, from September 2005, reflecting increases in transfer payments and increased operating expenses of departments and agencies, excluding National Defence.

Transfer payments were up \$0.8 billion, or 9.7 per cent.

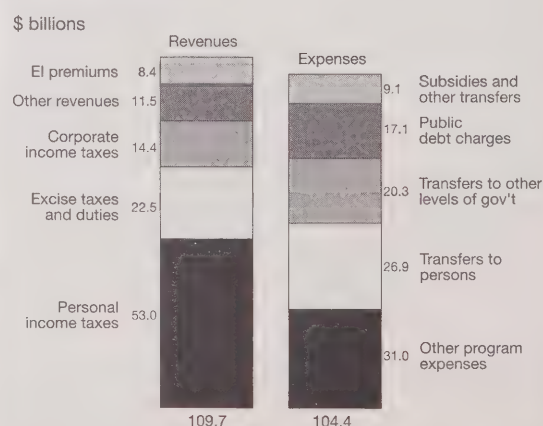
- Transfers to persons, consisting of elderly, EI and children's benefits, rose \$0.3 billion, or 8.3 per cent. Elderly benefits increased by 5.6 per cent. EI benefits decreased by 0.8 per cent, reflecting declines in both regular and maternity benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up \$219 million, largely reflecting \$199 million in transfers under the UCCB program.

- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up \$0.1 billion, or 4.1 per cent, reflecting increased funding under the 2004 agreements on health care and equalization/Territorial Formula Financing.
- Subsidies and other transfers increased by \$0.4 billion, or 28.1 per cent, reflecting in part increased agricultural assistance announced in Budget 2006.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence. They also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$1.0 billion, or 19.1 per cent. Expenses increased across a number of departments, bringing year-to-date growth more in line with projected spending in the 2006 budget. In addition, spending in September was affected by a one-time adjustment to reflect an under-accrual of pension costs in prior months.

Public debt charges increased by \$72 million.

## Revenues and expenses (April to September 2006)





## April to September 2006

In the first six months of the 2006–07 fiscal year, there was a budgetary surplus of \$5.3 billion, up \$0.4 billion from the \$4.9-billion surplus reported in the same period of 2005–06.

Budgetary revenues were up \$5.6 billion, or 5.3 per cent, to \$109.7 billion.

- Personal income tax revenues were up \$5.0 billion, or 10.5 per cent, reflecting solid growth in employment and wages and salaries, combined with the progressivity of the personal income tax system.
- Corporate income tax revenues rose \$1.5 billion, or 11.7 per cent, reflecting a higher corporate instalment payment base and lower refunds to date, both of which in turn reflect profit growth in 2005 and higher corporate profitability this year.
- Other income tax revenues rose \$0.2 billion, or 9.6 per cent.
- Excise taxes and duties were down \$0.8 billion, or 3.6 per cent, mainly due to a \$0.9-billion drop in GST revenues, reflecting the impact of the GST rate reduction on July 1, 2006. Sales and excise tax revenues were also lower, falling \$48 million, or 1.0 per cent.

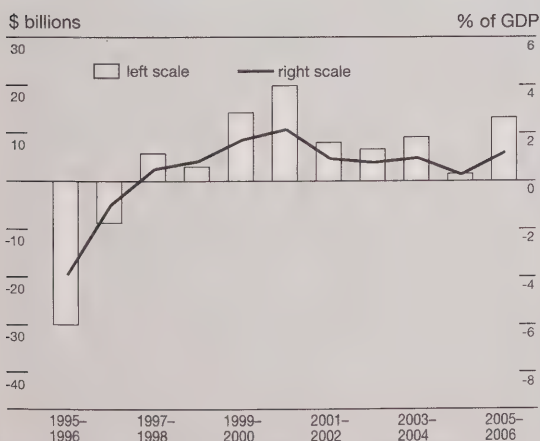
Customs import duties were up \$0.1 billion, or 6.4 per cent, while revenues from the Air Travellers Security Charge were \$3 million higher.

- EI premium revenues declined by 7.2 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues were up \$0.3 billion, or 3.4 per cent.

Program expenses in the April to September 2006 period were \$87.3 billion, up \$5.0 billion, or 6.1 per cent, over the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.2 billion.

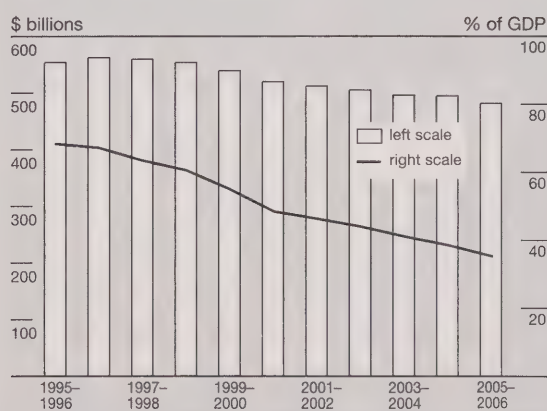
Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.0 billion, or 5.7 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- Transfers to persons advanced by 4.3 per cent. Elderly benefits were up 4.9 per cent while EI benefits were down 4.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06. Maternity and parental benefits are also down year-to-date due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 15.8 per cent, largely reflecting transfers under the new UCCB, which began on July 1, 2006.
- Transfers to other levels of government were up \$1.6 billion, or 8.4 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.4 billion, or 4.1 per cent.

Other program expenses increased by \$1.9 billion, or 6.7 per cent, reflecting an increase in the operating costs of departments and agencies as well as a one-time increase in the Government's estimated liabilities. Crown corporation expenses declined by \$0.1 billion, or 1.7 per cent.

Public debt charges were up 1.0 per cent, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

## **Financial source of \$3.0 billion for April to September 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the

Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$2.3 billion in the April to September period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from the \$7.8-billion requirement recorded in the same period of 2005–06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005–06.

With a budgetary surplus of \$5.3 billion and a net requirement of \$2.3 billion from non-budgetary transactions, there was a financial source of \$3.0 billion in the first six months of 2006–07 compared to a financial requirement of \$2.9 billion in the same period of 2005–06.

## **Net financing activities down \$17.5 billion**

The Government used this financial source of \$3.0 billion and a reduction in its cash balances of \$14.5 billion to reduce its market debt by \$17.5 billion by the end of September 2006, largely through a reduction of treasury bills and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September stood at \$3.4 billion.

Table 1  
Summary statement of transactions

	September		April to September	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,652	16,985	104,174	109,732
Expenses				
Program expenses	-13,674	-15,481	-82,323	-87,309
Public debt charges	-2,814	-2,886	-16,917	-17,078
Budgetary balance (deficit/surplus)	164	-1,382	4,934	5,345
<b>Non-budgetary transactions</b>	2,413	276	-7,793	-2,312
<b>Financial source/requirement</b>	2,577	-1,106	-2,859	3,033
<b>Net change in financing activities</b>	-7,163	292	-11,560	-17,527
<b>Net change in cash balances</b>	-4,586	-814	-14,419	-14,494
<b>Cash balance at end of period</b>			2,702	3,437

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	September			April to September		
	2005	2006	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,726	8,413	8.9	48,017	53,047	10.5
Corporate income tax	1,921	2,202	14.6	12,870	14,379	11.7
Other income tax	355	261	-26.5	1,930	2,116	9.6
Total income tax	10,002	10,876	8.7	62,817	69,542	10.7
Excise taxes and duties						
Goods and services tax	2,834	2,510	-11.4	16,550	15,654	-5.4
Customs import duties	305	307	0.7	1,683	1,791	6.4
Sales and excise taxes	864	873	1.0	4,906	4,858	-1.0
Air Travellers Security Charge	31	28	-9.7	180	183	1.7
Total excise taxes and duties	4,034	3,718	-7.8	23,319	22,486	-3.6
Total tax revenues	14,036	14,594	4.0	86,136	92,028	6.8
<b>Employment insurance premiums</b>	1,140	1,046	-8.2	9,003	8,358	-7.2
<b>Other revenues</b>	1,476	1,345	-8.9	9,035	9,346	3.4
<b>Total budgetary revenues</b>	16,652	16,985	2.0	104,174	109,732	5.3

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 3

## Budgetary expenses

	September		Change	April to September		Change
	2005	2006		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,415	2,551	5.6	14,393	15,096	4.9
Employment insurance benefits	996	988	-0.8	6,804	6,473	-4.9
Children's benefits	757	976	28.9	4,603	5,332	15.8
Total	4,168	4,515	8.3	25,800	26,901	4.3
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	9,500	10,070	6.0
Canada Social Transfer	686	708	3.2	4,113	4,250	3.3
Total	2,269	2,386	5.2	13,613	14,320	5.2
Fiscal transfers	1,010	1,111	10.0	6,402	6,634	3.6
Canada's cities and communities	69	0	n/a	181	306	69.1
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-239	-261	9.2	-1,436	-1,566	9.1
Total	3,109	3,236	4.1	18,760	20,344	8.4
Subsidies and other transfers						
Agriculture and Agri-Food	142	383	169.7	605	782	29.3
Foreign Affairs and International Trade	248	138	-44.4	1,245	983	-21.0
Health	230	207	-10.0	912	925	1.4
Human Resources and Social Development	169	146	-13.6	779	828	6.3
Indian Affairs and Northern Development	326	378	16.0	2,310	2,381	3.1
Industry	132	124	-6.1	918	871	-5.1
Other	17	243	n/a	1,936	2,295	18.5
Total	1,264	1,619	28.1	8,705	9,065	4.1
Total transfer payments	8,541	9,370	9.7	53,265	56,310	5.7
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	73	100	37.0	668	695	4.0
Canada Mortgage and Housing Corporation	184	176	-4.3	1,030	974	-5.4
Other	239	281	17.6	1,740	1,710	-1.7
Total	496	557	12.3	3,438	3,379	-1.7
Defence	1,405	1,283	-8.7	7,054	7,458	5.7
All other departments and agencies	3,232	4,271	32.1	18,566	20,162	8.6
Total other program expenses	5,133	6,111	19.1	29,058	30,999	6.7
<b>Total program expenses</b>	13,674	15,481	13.2	82,323	87,309	6.1
<b>Public debt charges</b>	2,814	2,886	2.6	16,917	17,078	1.0
<b>Total budgetary expenses</b>	16,488	18,367	11.4	99,240	104,387	5.2

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	September		April to September	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	164	-1,382	4,934	5,345
<b>Non-budgetary transactions</b>				
Capital investing activities	-613	-411	-730	-824
Other investing activities	-881	-887	-1,821	-471
Pension and other accounts	807	1,085	-881	2,555
Other activities				
Accounts payable, receivables, accruals and allowances	2,474	456	-7,792	-6,369
Foreign exchange activities	344	-322	1,884	1,257
Amortization of tangible capital assets	282	355	1,547	1,540
Total other activities	3,100	489	-4,361	-3,572
<b>Total non-budgetary transactions</b>	2,413	276	-7,793	-2,312
<b>Net financial source/requirement</b>	2,577	-1,106	-2,859	3,033

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	September		April to September	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	2,577	-1,106	-2,859	3,033
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-4,461	-2,832	-3,078	-1,212
Treasury bills	-2,600	3,200	-4,400	-10,600
Canada Savings Bonds	-37	-46	-429	-425
Other	-26	-114	-168	-1,129
Total	-7,124	208	-8,075	-13,366
Foreign currency borrowings	8	-75	-3,583	-3,929
Total	-7,116	133	-11,658	-17,295
Cross-currency swap revaluation	-73	118	-78	-3
Unamortized discounts on debt issues	34	38	100	-185
Obligations related to capital leases	-8	3	76	-44
<b>Net change in financing activities</b>	-7,163	292	-11,560	-17,527
<b>Change in cash balance</b>	-4,586	-814	-14,419	-14,494

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2006	September 30, 2006	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	101,432	89,925	-11,507
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	259,922	-1,212
Treasury bills	131,597	120,997	-10,600
Canada Savings Bonds	17,342	16,917	-425
Other	3,102	1,973	-1,129
Subtotal	413,175	399,809	-13,366
Payable in foreign currencies	14,085	10,156	-3,929
Cross-currency swap revaluation account	-2,258	-2,261	-3
Unamortized discounts and premiums on market debt	-6,780	-6,965	-185
Obligations related to capital leases	2,927	2,883	-44
Total unamatured debt	421,149	403,622	-17,527
Pension and other accounts			
Public sector pensions	131,062	132,899	1,837
Other employee and veteran future benefits	43,369	44,179	810
Other pension and other accounts	5,493	5,401	-92
Total pension and other accounts	179,924	182,479	2,555
Total interest-bearing debt	601,073	586,101	-14,972
<b>Total liabilities</b>	702,505	676,026	-26,479
<b>Financial assets</b>			
Cash and accounts receivable	82,843	63,211	-19,632
Foreign exchange accounts	40,827	39,570	-1,257
Loans, investments and advances (net of allowances)	41,889	42,360	471
<b>Total financial assets</b>	165,559	145,141	-20,418
<b>Net debt</b>	536,946	530,885	-6,061
<b>Non-financial assets</b>	55,447	54,731	-716
<b>Federal debt (accumulated deficit)</b>	481,499	476,154	-5,345

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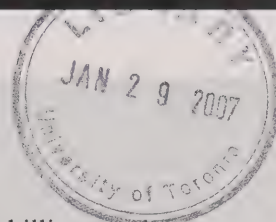
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November 2006



# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### October 2006: budgetary surplus of \$0.4 billion

There was a budgetary surplus of \$0.4 billion in October 2006, compared to a \$1.6-billion surplus in October 2005. Revenues decreased by \$0.2 billion, or 1.0 per cent, reflecting both the goods and services tax (GST) rate reduction and a number of one-time factors affecting income tax revenues. Program expenses increased by \$1.0 billion, or 7.0 per cent, reflecting increases in transfer payments and departmental operating expenses. Transfer payments, which account for about two-thirds of total program expenses, increased by \$0.6 billion, or 6.3 per cent. Public debt charges were down \$19 million.

### April to October 2006: budgetary surplus of \$5.8 billion

For the first seven months of the 2006–07 fiscal year, the budgetary surplus is estimated at \$5.8 billion, down \$0.7 billion from the \$6.5-billion surplus posted in the same period of 2005–06. Revenues were up \$5.4 billion, or 4.4 per cent, reflecting solid growth in income tax revenues, partially offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up \$6.0 billion, or 6.2 per cent, due to both higher transfers and other program expenses. This includes transfers to other levels of government, which were up \$1.5 billion, or 6.9 per cent. Public debt charges were up \$0.1 billion.

## October 2006

There was a budgetary surplus of \$0.4 billion in October 2006, compared to a \$1.6-billion surplus in October 2005.

Budgetary revenues declined by \$0.2 billion, or 1.0 per cent, to \$18.1 billion.

- Personal income tax receipts rose just \$41 million, or 0.5 per cent, in October, largely due to two one-time factors. First, the October results include the accrual of the costs pertaining to the first 10 months of the increase of the age credit introduced in the October 31 Tax Fairness Plan (\$270 million, retroactive to January 1, 2006). Secondly, there were two fewer large processing days for payroll deductions in October 2006 compared to October 2005.
- Corporate income tax revenues increased \$0.1 billion, or 2.6 per cent. This increase was slower than in previous months. Corporate income tax revenues can be volatile on a month-to-month basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place several years prior, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—fell \$0.1 billion, or 15.6 per cent, reflecting the high level of receipts reported at this time last year.
- Excise taxes and duties were down \$0.5 billion, due to a 14.9-per-cent drop in GST revenues, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006.



- EI premium revenues declined by 8.5 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.4 billion, or 25.7 per cent. This revenue stream is volatile on a monthly basis. The large gain in October follows a decline of 8.9 per cent in September and an increase of 16.7 per cent in August.

Program expenses in October 2006 were \$14.9 billion, up \$1.0 billion, or 7.0 per cent, from October 2005, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments increased \$0.6 billion, or 6.3 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose \$0.3 billion, or 7.0 per cent. Elderly benefits increased 4.0 per cent. EI benefit payments decreased 1.3 per cent, reflecting declines in both maternity and parental benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up \$0.2 billion, reflecting transfers under the new UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were down \$0.1 billion, or 1.9 per cent.

- Subsidies and other transfers increased by \$0.3 billion, or 23.8 per cent, reflecting in part increased agricultural assistance announced in Budget 2006.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased \$0.4 billion, or 8.4 per cent, reflecting increases across a number of departments.

Public debt charges decreased \$19 million.

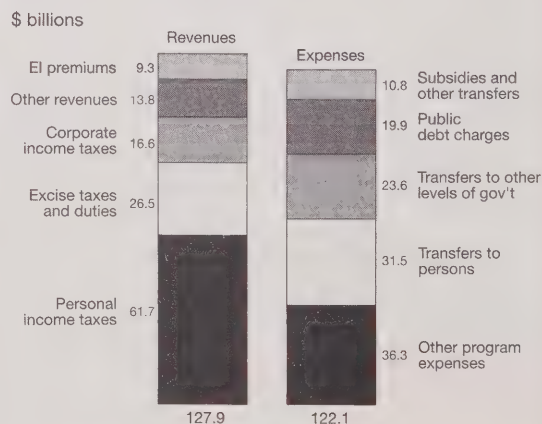
## April to October 2006

In the first seven months of the 2006–07 fiscal year, there was a budgetary surplus of \$5.8 billion, \$0.7 billion less than the \$6.5-billion surplus reported for the same period of 2005–06.

Budgetary revenues through the first seven months of the fiscal year were up \$5.4 billion, or 4.4 per cent, to \$127.9 billion.

- Personal income tax revenues were up \$5.1 billion, or 9.0 per cent, reflecting solid growth in employment and wages and salaries combined with the progressivity of the personal income tax system.

## Revenues and expenses (April to October 2006)



- Corporate income tax revenues rose \$1.6 billion, or 10.4 per cent, reflecting a higher corporate instalment payment base. This, in turn, reflects profit growth in 2005 and continued growth in corporate profitability this year. The corporate results to date are not indicative of the eventual outcome for the fiscal year as a whole. Roughly half of corporate income tax revenues comes from corporations with December year-ends, which results in as much as one-third of total corporate receipts being received during the February-to-March settlement period of the fiscal year. Consequently, results for even the first 10 months of the fiscal year can differ markedly from the final, full-year outcome.
- Other income tax revenues rose \$0.1 billion, or 5.2 per cent.
- Excise taxes and duties declined by \$1.4 billion, or 4.9 per cent, mainly due to a \$1.4-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. Sales and excise tax revenues decreased by \$0.1 billion, or 1.6 per cent. Customs import duties rose \$0.1 billion, or 6.4 per cent, while revenues from the Air Travellers Security Charge were \$7 million higher.
- EI premium revenues declined by 7.3 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer

to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.

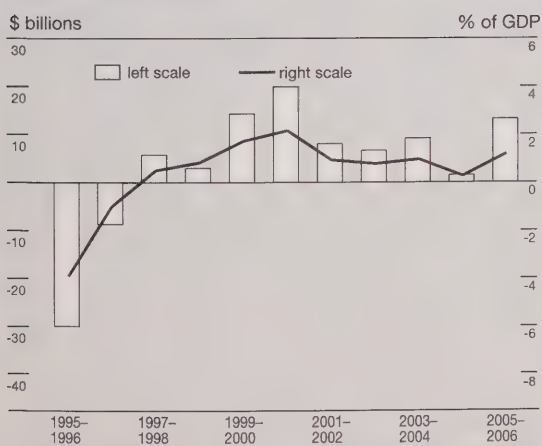
- Other revenues were up \$0.7 billion, or 6.7 per cent.

Program expenses in the April-to-October 2006 period were \$102.2 billion, up \$6.0 billion, or 6.2 per cent, from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.1 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.6 billion, or 5.8 per cent.

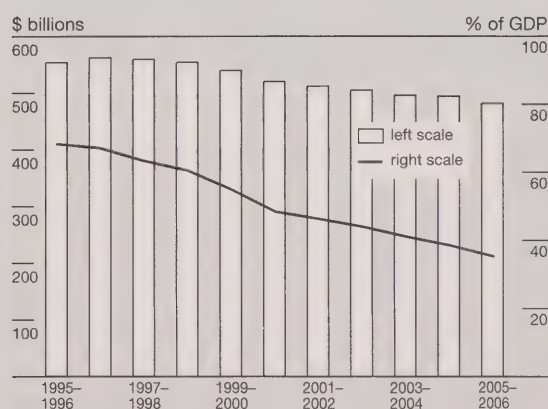
- Transfers to persons grew by 4.7 per cent. Elderly benefits were up 4.8 per cent while EI benefits were down 4.4 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits, in that province, effective January 1, 2006. Children's benefits increased by 17.7 per cent, largely reflecting transfers under the new UCCB, which began on July 1, 2006.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



- Transfers to other levels of government were up \$1.5 billion, or 6.9 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.7 billion, or 6.8 per cent, reflecting increases in transfer payments across a number of departments, most notably Agriculture and Agri-Food Canada.

Other program expenses increased by \$2.3 billion, 6.9 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were up 0.7 per cent, due mainly to an increase in the average effective interest rate on the stock of interest-bearing debt.

## **Financial source of \$2.9 billion for April to October 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets.

The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$2.9 billion in the April-to-October period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from an \$8.1-billion requirement in the same period of 2005-06. The decrease in the net requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005-06, as well as an increase in the financial source from foreign exchange activities.

With a budgetary surplus of \$5.8 billion and a net requirement of \$2.9 billion from non-budgetary transactions, there was a financial source of \$2.9 billion in the first seven months of 2006-07 compared to a financial requirement of \$1.6 billion in the same period of 2005-06.

## **Net financing activities down \$17.4 billion**

The Government used this financial source of \$2.9 billion and a reduction in its cash balances of \$14.5 billion to reduce its market debt by \$17.4 billion by the end of October 2006, largely through a reduction of treasury bills and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at \$3.4 billion.

Table 1

## Summary statement of transactions

	October		April to October	
	2005	2006	2005–06	2006–07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	18,325	18,145	122,499	127,877
Expenses				
Program expenses	-13,877	-14,851	-96,199	-102,158
Public debt charges	-2,882	-2,863	-19,799	-19,941
Budgetary balance (deficit/surplus)	1,566	431	6,501	5,778
<b>Non-budgetary transactions</b>	-281	-622	-8,067	-2,918
<b>Financial source/requirement</b>	1,285	-191	-1,566	2,860
<b>Net change in financing activities</b>	-412	134	-11,972	-17,393
<b>Net change in cash balances</b>	873	-57	-13,538	-14,533
<b>Cash balance at end of period</b>			3,620	3,426

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	October			April to October		
	2005	2006	Change	2005–06	2006–07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,604	8,645	0.5	56,621	61,692	9.0
Corporate income tax	2,199	2,256	2.6	15,069	16,635	10.4
Other income tax	411	347	-15.6	2,341	2,463	5.2
Total income tax	11,214	11,248	0.3	74,031	80,790	9.1
Excise taxes and duties						
Goods and services tax	3,441	2,930	-14.9	19,991	18,584	-7.0
Customs import duties	315	334	6.0	1,998	2,125	6.4
Sales and excise taxes	755	710	-6.0	5,661	5,568	-1.6
Air Travellers Security Charge	26	30	15.4	206	213	3.4
Total excise taxes and duties	4,537	4,004	-11.7	27,856	26,490	-4.9
Total tax revenues	15,751	15,252	-3.2	101,887	107,280	5.3
<b>Employment insurance premiums</b>	1,003	918	-8.5	10,006	9,276	-7.3
<b>Other revenues</b>	1,571	1,975	25.7	10,606	11,321	6.7
<b>Total budgetary revenues</b>	18,325	18,145	-1.0	122,499	127,877	4.4

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	October		Change	April to October		Change
	2005	2006		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,425	2,521	4.0	16,818	17,617	4.8
Employment insurance benefits	1,136	1,121	-1.3	7,940	7,594	-4.4
Children's benefits	766	987	28.9	5,369	6,319	17.7
Total	4,327	4,629	7.0	30,127	31,530	4.7
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	11,083	11,748	6.0
Canada Social Transfer	685	708	3.4	4,798	4,958	3.3
Total	2,268	2,386	5.2	15,881	16,706	5.2
Fiscal transfers	1,045	1,097	5.0	7,447	7,731	3.8
Canada's cities and communities	213	0	n/a	394	306	-22.3
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-242	-262	8.3	-1,678	-1,828	8.9
Total	3,284	3,221	-1.9	22,044	23,565	6.9
Subsidies and other transfers						
Agriculture and Agri-Food	130	265	103.8	735	1,047	42.4
Foreign Affairs and International Trade	-38	139	n/a	1,207	1,122	-7.0
Health	98	128	30.6	1,010	1,053	4.3
Human Resources and Social Development	134	114	-14.9	913	942	3.2
Indian Affairs and Northern Development	366	373	1.9	2,676	2,754	2.9
Industry	211	246	16.6	1,129	1,117	-1.1
Other	471	433	-8.1	2,407	2,728	13.3
Total	1,372	1,698	23.8	10,077	10,763	6.8
Total transfer payments	8,983	9,548	6.3	62,248	65,858	5.8
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	100	69	-31.0	768	764	-0.5
Canada Mortgage and Housing Corporation	164	209	27.4	1,194	1,183	-0.9
Other	229	267	16.6	1,969	1,977	0.4
Total	493	545	10.5	3,931	3,924	-0.2
Defence	1,237	1,359	9.9	8,291	8,817	6.3
All other departments and agencies	3,164	3,399	7.4	21,729	23,559	8.4
Total other program expenses	4,894	5,303	8.4	33,951	36,300	6.9
<b>Total program expenses</b>	13,877	14,851	7.0	96,199	102,158	6.2
<b>Public debt charges</b>	2,882	2,863	-0.7	19,799	19,941	0.7
<b>Total budgetary expenses</b>	16,759	17,714	5.7	115,998	122,099	5.3

Note: Totals may not add due to rounding.



Table 4

## The budgetary balance and financial source/requirement

	October		April to October	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,566	431	6,501	5,778
<b>Non-budgetary transactions</b>				
Capital investing activities	-248	-218	-978	-1,042
Other investing activities	-314	-1,314	-2,135	-1,785
Pension and other accounts	347	331	-534	2,886
Other activities				
Accounts payable, receivables, accruals and allowances	710	-202	-7,075	-6,555
Foreign exchange activities	-1,026	535	858	1,792
Amortization of tangible capital assets	250	246	1,797	1,786
Total other activities	-66	579	-4,420	-2,977
<b>Total non-budgetary transactions</b>	-281	-622	-8,067	-2,918
<b>Net financial source/requirement</b>	1,285	-191	-1,566	2,860

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	October		April to October	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	1,285	-191	-1,566	2,860
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-1,585	1,467	-4,663	255
Treasury bills	1,000	-1,300	-3,400	-11,900
Canada Savings Bonds	-68	-45	-497	-470
Other	-13	-1	-181	-1,130
Total	-666	121	-8,741	-13,245
Foreign currency borrowings	302	-93	-3,281	-4,022
Total	-364	28	-12,022	-17,267
Cross-currency swap revaluation	3	129	-75	126
Unamortized discounts on debt issues	-53	-17	47	-202
Obligations related to capital leases	2	-6	78	-50
<b>Net change in financing activities</b>	-412	134	-11,972	-17,393
<b>Change in cash balance</b>	873	-57	-13,538	-14,533

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2006	October 31, 2006	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	101,432	92,265	-9,167
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	261,389	255
Treasury bills	131,597	119,697	-11,900
Canada Savings Bonds	17,342	16,872	-470
Other	3,102	1,972	-1,130
Subtotal	413,175	399,930	-13,245
Payable in foreign currencies	14,085	10,063	-4,022
Cross-currency swap revaluation account	-2,258	-2,132	126
Unamortized discounts and premiums on market debt	-6,780	-6,982	-202
Obligations related to capital leases	2,927	2,877	-50
Total unmaturred debt	421,149	403,756	-17,393
Pension and other accounts			
Public sector pensions	131,062	133,194	2,132
Other employee and veteran future benefits	43,369	44,315	946
Other pension and other accounts	5,493	5,301	-192
Total pension and other accounts	179,924	182,810	2,886
Total interest-bearing debt	601,073	586,566	-14,507
<b>Total liabilities</b>	702,505	678,831	-23,674
<b>Financial assets</b>			
Cash and accounts receivable	82,843	65,698	-17,145
Foreign exchange accounts	40,827	39,035	-1,792
Loans, investments and advances (net of allowances)	41,889	43,674	1,785
<b>Total financial assets</b>	165,559	148,407	-17,152
<b>Net debt</b>	536,946	530,424	-6,522
<b>Non-financial assets</b>	55,447	54,703	-744
<b>Federal debt (accumulated deficit)</b>	481,499	475,721	-5,778

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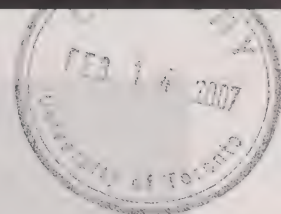
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December 2006

# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### November 2006: budgetary surplus of \$0.3 billion

There was a budgetary surplus of \$0.3 billion in November 2006, slightly higher than the restated \$0.1-billion surplus in November 2005. Budgetary revenues increased by \$1.0 billion, or 6.0 per cent, due to strong growth in personal income tax revenues and a large gain in non-resident withholding taxes, partly offset by lower excise taxes and duties. Program expenses increased by \$1.1 billion, or 7.8 per cent, reflecting increases in transfer payments and departmental operating expenses. Public debt charges were down \$0.3 billion.

### April to November 2006: budgetary surplus of \$6.1 billion

For the first eight months of the 2006–07 fiscal year, the budgetary surplus is estimated at \$6.1 billion, down \$0.5 billion from the \$6.6-billion surplus posted in the same period of 2005–06. Budgetary revenues rose \$6.4 billion, or 4.6 per cent, reflecting solid growth in income tax revenues, partly offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up \$7.1 billion, or 6.4 per cent, due to both higher transfers and other program expenses. Public debt charges were down \$0.1 billion.

#### *Note to readers:*

*Beginning with the April Fiscal Monitor, to facilitate comparison with the 2006–07 monthly results, revenues and expenses from 2005 have been restated on a gross reporting basis, consistent with the presentation in Budget 2006. As well, revenues have been restated to evenly distribute the cost of the retroactive increase in the basic personal amount and the reduction of the 16-per-cent tax rate to 15 per cent for the 2005 taxation year. The restatement of revenues also has an impact on reported surpluses for the April-to-December 2005 period.*

### November 2006

There was a budgetary surplus of \$0.3 billion in November 2006, up slightly from the restated \$0.1-billion surplus in November 2005.

Budgetary revenues grew by \$1.0 billion, or 6.0 per cent, to \$18.3 billion.

- Personal income tax revenues were up \$0.8 billion, or 10.9 per cent, in November, following a gain of only 0.5 per cent in October.

- Corporate income tax revenues rose \$0.1 billion, or 4.1 per cent. Corporate income tax revenues can be volatile on a monthly basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place several years prior, can influence results in a given month.





# The Fiscal Monitor

- Other income tax revenues—withholdings from non-residents—rose \$0.7 billion, a significant part of which reflects a one-time payment in respect of the sale of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by \$0.5 billion due to an 18.4-per-cent drop in goods and services tax (GST) revenues, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues declined by 7.9 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.1 billion, or 3.5 per cent. This revenue stream is volatile on a monthly basis.

Program expenses in November 2006 were \$15.3 billion, up \$1.1 billion, or 7.8 per cent, from November 2005, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments increased by \$0.5 billion, or 5.6 per cent.

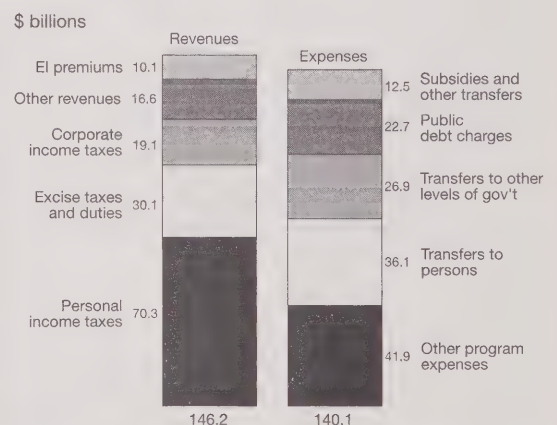
- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose \$0.3 billion, or 8.0 per cent. Elderly benefits increased by 5.3 per cent. EI benefit payments decreased by 0.9 per cent, reflecting declines in both maternity and parental benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up \$0.2 billion, reflecting transfers under the new UCCB program.

- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up \$0.3 billion, or 8.9 per cent.
- Subsidies and other transfers decreased by \$0.1 billion, or 5.2 per cent. This component can be volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$0.6 billion, or 11.8 per cent, reflecting increases across a number of departments.

Public debt charges decreased by \$0.3 billion.

**Revenues and expenses**  
(April to November 2006)



## April to November 2006

In the first eight months of the 2006–07 fiscal year, there was a budgetary surplus of \$6.1 billion, down \$0.5 billion from the \$6.6-billion surplus reported for the same period of 2005–06.

Budgetary revenues through the first eight months of the fiscal year were up \$6.4 billion, or 4.6 per cent, to \$146.2 billion.

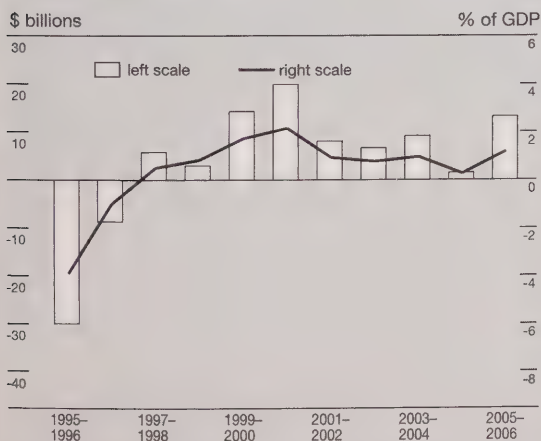
- Personal income tax revenues rose \$5.9 billion, or 9.2 per cent, reflecting solid growth in employment and wages and salaries combined with the progressivity of the personal income tax system.
- Corporate income tax revenues increased by \$1.7 billion, or 9.5 per cent, reflecting a higher corporate instalment payment base, which in turn reflects profit growth in 2005 and 2006. The corporate results to date are not indicative of the eventual outcome for the fiscal year as a whole. Roughly two-thirds of corporate income tax revenues comes from corporations with year-ends in October to December, which results in roughly half of corporate income tax revenues being received in the last four months of the fiscal year, when these corporations must make settlement payments in respect of any differences between their actual tax liabilities for the year and their instalment payments. Consequently, results for even the first eight months of the fiscal year can differ markedly from the final, full-year outcome.

- Other income tax revenues rose \$0.8 billion, or 28.8 per cent, boosted by a one-time payment related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by \$1.9 billion, or 5.9 per cent, primarily due to a \$2.0-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. Sales and excise tax revenues decreased by \$0.1 billion, or 0.9 per cent. Customs import duties rose \$0.1 billion, or 4.4 per cent, while revenues from the Air Travellers Security Charge were \$12 million higher.
- EI premium revenues declined by 7.3 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues rose \$0.8 billion, or 6.3 per cent.

Program expenses in the April-to-November 2006 period were \$117.5 billion, up \$7.1 billion, or 6.4 per cent, from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges decreased by \$0.1 billion.

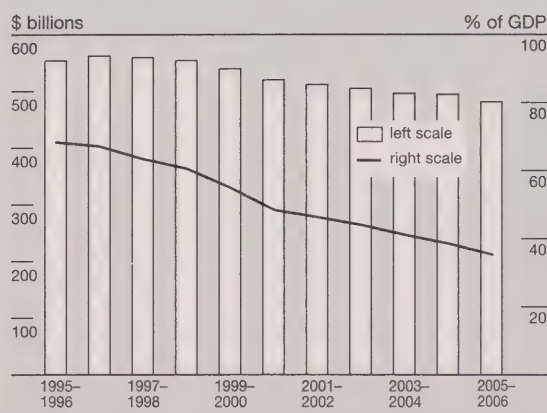
Transfer payments, which account for about two-thirds of total program expenses, increased by \$4.1 billion, or 5.8 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- Transfers to persons grew by 5.1 per cent. Elderly benefits were up 4.8 per cent while EI benefits were down 3.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 19.0 per cent, reflecting transfers under the new UCCB program, which began on July 1, 2006.
- Transfers to other levels of government were up \$1.8 billion, or 7.1 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.6 billion, or 4.9 per cent, reflecting increases in transfer payments across a number of departments, most notably Agriculture and Agri-Food Canada.

Other program expenses increased by \$2.9 billion, 7.5 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were down 0.6 per cent due mainly to a decrease in the stock of interest-bearing debt.

## **Financial source of \$2.8 billion for April to November 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances,

as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a requirement of \$3.3 billion in the April-to-November period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from an \$8.0-billion requirement in the same period of 2005-06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005-06, as well as an increase in the financial source from foreign exchange activities due to variations in the exchange rate.

With a budgetary surplus of \$6.1 billion and a requirement of \$3.3 billion from non-budgetary transactions, there was a net financial source of \$2.8 billion in the first eight months of 2006-07 compared to a net financial requirement of \$1.4 billion in the same period of 2005-06.

## **Net financing activities down \$7.4 billion**

The Government used this net financial source of \$2.8 billion and a reduction in its cash balances of \$4.6 billion to reduce its market debt by \$7.4 billion by the end of November 2006, largely through a reduction of treasury bills and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of November stood at \$13.3 billion.



Table 1

## Summary statement of transactions

	November		April to November	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	17,268	18,311	139,767	146,188
Expenses				
Program expenses	-14,193	-15,298	-110,392	-117,456
Public debt charges	-2,990	-2,709	-22,789	-22,650
Budgetary balance (deficit/surplus)	85	304	6,586	6,082
<b>Non-budgetary transactions</b>	47	-396	-8,020	-3,314
<b>Financial source/requirement</b>	132	-92	-1,434	2,768
<b>Net change in financing activities</b>	3,275	10,010	-8,697	-7,383
<b>Net change in cash balances</b>	3,407	9,918	-10,131	-4,615
<b>Cash balance at end of period</b>			7,025	13,346

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	November			April to November		
	2005	2006	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,718	8,560	10.9	64,339	70,252	9.2
Corporate income tax	2,393	2,490	4.1	17,462	19,125	9.5
Other income tax	343	994	189.8	2,684	3,457	28.8
Total income tax	10,454	12,044	15.2	84,485	92,834	9.9
Excise taxes and duties						
Goods and services tax	3,006	2,452	-18.4	22,997	21,036	-8.5
Customs import duties	329	304	-7.6	2,327	2,429	4.4
Sales and excise taxes	797	833	4.5	6,458	6,401	-0.9
Air Travellers Security Charge	25	30	20.0	231	243	5.2
Total excise taxes and duties	4,157	3,619	-12.9	32,013	30,109	-5.9
Total tax revenues	14,611	15,663	7.2	116,498	122,943	5.5
<b>Employment insurance premiums</b>	896	825	-7.9	10,902	10,101	-7.3
<b>Other revenues</b>	1,761	1,823	3.5	12,367	13,144	6.3
<b>Total budgetary revenues</b>	17,268	18,311	6.0	139,767	146,188	4.6

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	November			April to November		
	2005	2006	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,433	2,562	5.3	19,251	20,179	4.8
Employment insurance benefits	1,050	1,041	-0.9	8,990	8,635	-3.9
Children's benefits	779	1,000	28.4	6,148	7,319	19.0
Total	4,262	4,603	8.0	34,389	36,133	5.1
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,584	1,679	6.0	12,667	13,427	6.0
Canada Social Transfer	685	709	3.5	5,483	5,667	3.4
Total	2,269	2,388	5.2	18,150	19,094	5.2
Fiscal transfers	1,045	1,125	7.7	8,492	8,856	4.3
Canada's cities and communities	0	38	n/a	394	344	-12.7
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-261	-227	-13.0	-1,939	-2,055	6.0
Total	3,053	3,324	8.9	25,097	26,889	7.1
Subsidies and other transfers						
Agriculture and Agri-Food	161	324	101.2	896	1,371	53.0
Foreign Affairs and International Trade	182	189	3.8	1,389	1,311	-5.6
Health	173	208	20.2	1,183	1,261	6.6
Human Resources and Social Development	132	136	3.0	1,045	1,078	3.2
Indian Affairs and Northern Development	563	351	-37.7	3,239	3,105	-4.1
Industry	118	135	14.4	1,247	1,252	0.4
Other	532	421	-20.9	2,939	3,149	7.1
Total	1,861	1,764	-5.2	11,938	12,527	4.9
Total transfer payments	9,176	9,691	5.6	71,424	75,549	5.8
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	100	126	26.0	868	890	2.5
Canada Mortgage and Housing Corporation	172	172	0.0	1,366	1,355	-0.8
Other	185	241	30.3	2,154	2,218	3.0
Total	457	539	17.9	4,388	4,463	1.7
Defence	1,249	1,435	14.9	9,540	10,252	7.5
All other departments and agencies	3,311	3,633	9.7	25,040	27,192	8.6
Total other program expenses	5,017	5,607	11.8	38,968	41,907	7.5
<b>Total program expenses</b>	<b>14,193</b>	<b>15,298</b>	<b>7.8</b>	<b>110,392</b>	<b>117,456</b>	<b>6.4</b>
<b>Public debt charges</b>	<b>2,990</b>	<b>2,709</b>	<b>-9.4</b>	<b>22,789</b>	<b>22,650</b>	<b>-0.6</b>
<b>Total budgetary expenses</b>	<b>17,183</b>	<b>18,007</b>	<b>4.8</b>	<b>133,181</b>	<b>140,106</b>	<b>5.2</b>

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	November		April to November	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	85	304	6,586	6,082
<b>Non-budgetary transactions</b>				
Capital investing activities	-193	-247	-1,171	-1,289
Other investing activities	-251	-849	-2,386	-2,634
Pension and other accounts	-15	498	-549	3,384
Other activities				
Accounts payable, receivables, accruals and allowances	584	157	-6,491	-6,398
Foreign exchange activities	-314	-207	544	1,585
Amortization of tangible capital assets	236	252	2,033	2,038
Total other activities	506	202	-3,914	-2,775
<b>Total non-budgetary transactions</b>	47	-396	-8,020	-3,314
<b>Net financial source/requirement</b>	132	-92	-1,434	2,768

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	November		April to November	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	132	-92	-1,434	2,768
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	3,253	3,299	-1,410	3,554
Treasury bills	900	8,200	-2,500	-3,700
Canada Savings Bonds	-448	-1,338	-945	-1,808
Other	-15	-3	-196	-1,133
Total	3,690	10,158	-5,051	-3,087
Foreign currency borrowings	-217	58	-3,498	-3,964
Total	3,473	10,216	-8,549	-7,051
Cross-currency swap revaluation	48	92	-27	218
Unamortized discounts on debt issues	-231	-285	-184	-487
Obligations related to capital leases	-15	-13	63	-63
<b>Net change in financing activities</b>	3,275	10,010	-8,697	-7,383
<b>Change in cash balance</b>	3,407	9,918	-10,131	-4,615

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2006	November 30, 2006	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	101,432	96,139	-5,293
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	264,688	3,554
Treasury bills	131,597	127,897	-3,700
Canada Savings Bonds	17,342	15,534	-1,808
Other	3,102	1,969	-1,133
Subtotal	413,175	410,088	-3,087
Payable in foreign currencies	14,085	10,121	-3,964
Cross-currency swap revaluation account	-2,258	-2,040	218
Unamortized discounts and premiums on market debt	-6,780	-7,267	-487
Obligations related to capital leases	2,927	2,864	-63
Total unmatured debt	421,149	413,766	-7,383
Pension and other accounts			
Public sector pensions	131,062	133,626	2,564
Other employee and veteran future benefits	43,369	44,449	1,080
Other pension and other accounts	5,493	5,233	-260
Total pension and other accounts	179,924	183,308	3,384
Total interest-bearing debt	601,073	597,074	-3,999
<b>Total liabilities</b>	<b>702,505</b>	<b>693,213</b>	<b>-9,292</b>
<b>Financial assets</b>			
Cash and accounts receivable	82,843	79,333	-3,510
Foreign exchange accounts	40,827	39,242	-1,585
Loans, investments and advances (net of allowances)	41,889	44,523	2,634
<b>Total financial assets</b>	<b>165,559</b>	<b>163,098</b>	<b>-2,461</b>
<b>Net debt</b>	<b>536,946</b>	<b>530,115</b>	<b>-6,831</b>
<b>Non-financial assets</b>	<b>55,447</b>	<b>54,698</b>	<b>-749</b>
<b>Federal debt (accumulated deficit)</b>	<b>481,499</b>	<b>475,417</b>	<b>-6,082</b>

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January 2007

# The Fiscal Monitor

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A Publication of the Department of Finance

## Highlights

### December 2006: budgetary surplus of \$1.2 billion

There was a budgetary surplus of \$1.2 billion in December 2006, up \$0.3 billion from the \$0.9-billion surplus in December 2005. Budgetary revenues rose \$1.4 billion, or 7.6 per cent, due to strong growth in personal and corporate income tax revenues as well as non-tax revenues, dampened by declines in other revenue streams, particularly excise taxes and duties. Program expenses increased by \$0.8 billion, or 5.5 per cent, reflecting increases in transfer payments and departmental operating expenses. Public debt charges were up \$0.3 billion.

### April to December 2006: budgetary surplus of \$7.3 billion

The budgetary surplus is estimated at \$7.3 billion for the first nine months of the 2006–07 fiscal year, down from the \$7.5-billion surplus posted in the same period of 2005–06. Revenues rose \$7.8 billion, or 4.9 per cent, reflecting strong growth in income tax revenues and non-tax revenues, partially offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up \$7.9 billion, or 6.3 per cent, due to both higher transfers and other program expenses. Public debt charges were up \$0.2 billion.

An update of the 2006–07 budgetary surplus projection will be provided in the budget.

### December 2006

There was a budgetary surplus of \$1.2 billion in December 2006, up from the \$0.9-billion surplus in December 2005.

Budgetary revenues increased by \$1.4 billion, or 7.6 per cent, to \$19.1 billion.

- Personal income tax revenues rose \$0.9 billion, or 9.7 per cent, in December, driven by strong growth in payroll deductions, which in turn reflects economic conditions and a larger than normal number of processing days in the month.

- Corporate income tax revenues rose \$0.8 billion, or 32.4 per cent. Corporate income tax revenues can be volatile on a monthly basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—declined by \$0.1 billion, or 24.2 per cent, reflecting very high levels of withholdings in December 2005.



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# The Fiscal Monitor

- Excise taxes and duties declined by \$0.4 billion, primarily due to a 14.8-per-cent drop in goods and services tax (GST) revenues, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues declined by 7.9 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.2 billion, or 14.3 per cent. This revenue stream is volatile on a monthly basis.

Program expenses in December 2006 were \$15.1 billion, up \$0.8 billion, or 5.5 per cent, from December 2005, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments increased by \$0.5 billion, or 5.2 per cent.

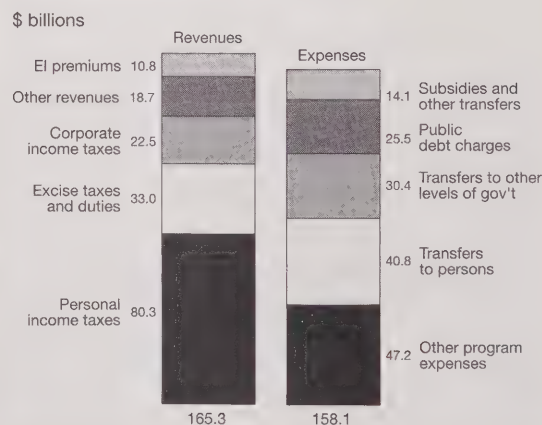
- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose \$0.3 billion, or 6.9 per cent. Elderly benefits increased by 5.1 per cent. EI benefits decreased by 2.1 per cent, reflecting declines in both maternity and parental benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up \$0.2 billion, reflecting transfers under the new UCCB program.

- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up \$0.3 billion, or 8.5 per cent.
- Subsidies and other transfers decreased by \$0.1 billion, or 5.2 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$0.3 billion, or 6.0 per cent, reflecting increases across a number of departments.

Public debt charges increased by \$0.3 billion, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

## Revenues and expenses (April to December 2006)





## April to December 2006

In the first nine months of the fiscal year, there was a budgetary surplus of \$7.3 billion, down \$0.2 billion from the \$7.5-billion surplus reported in the same period of 2005–06.

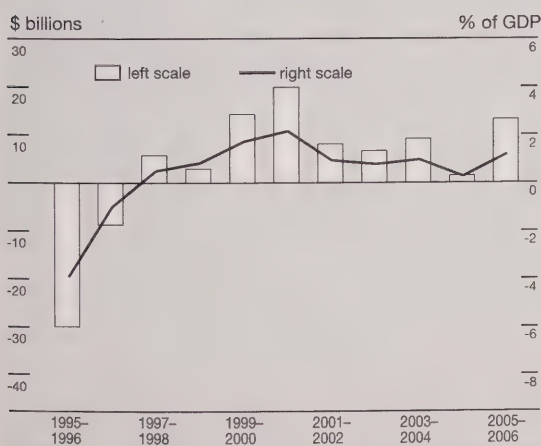
Budgetary revenues were up \$7.8 billion, or 4.9 per cent, to \$165.3 billion.

- Personal income tax revenues rose \$6.8 billion, or 9.3 per cent, reflecting solid growth in employment and wages and salaries combined with the progressivity of the personal income tax system.
- Corporate income tax revenues increased by \$2.5 billion, or 12.4 per cent, reflecting a higher corporate instalment payment base, which in turn reflects profit growth in 2005 and 2006. The corporate results to date are not necessarily indicative of the eventual outcome for the fiscal year as a whole. Roughly half of corporate income tax revenues comes from corporations with year-ends in December, which results in some 40 per cent, on average, of corporate income tax revenues being received in the final three months of the fiscal year, when these corporations must make settlement payments in respect of any differences between their actual tax liabilities for the year and their instalment payments. Consequently, results for even the first nine months of the fiscal year can differ markedly from the final, full-year outcome.

- Other income tax revenues rose \$0.6 billion, or 20.1 per cent, boosted by a one-time payment in November 2006 related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by \$2.3 billion, or 6.4 per cent, primarily due to a \$2.3-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. Sales and excise tax revenues decreased by \$0.1 billion, or 1.3 per cent. Customs import duties rose \$0.1 billion, or 3.4 per cent, while revenues from the Air Travellers Security Charge were up \$11 million.
- EI premium revenues declined by 7.4 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues rose \$1.0 billion, or 7.2 per cent.

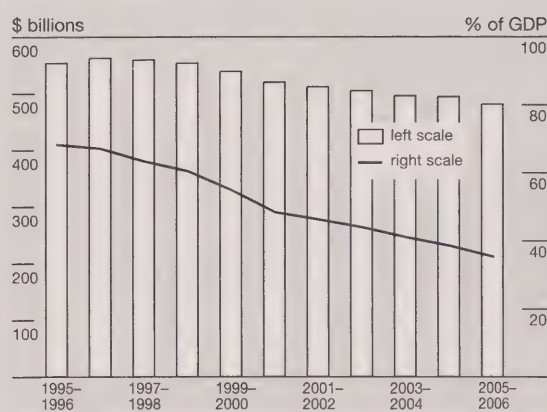
Program expenses in the April-to-December 2006 period were \$132.6 billion, up \$7.9 billion, or 6.3 per cent, from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.2 billion.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$4.6 billion, or 5.7 per cent.

- Transfers to persons grew by 5.3 per cent. Elderly benefits rose 4.8 per cent while EI benefits declined by 3.7 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 19.8 per cent, reflecting transfers under the new UCCB program, which began on July 1, 2006.
- Transfers to other levels of government were up \$2.1 billion, or 7.3 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.5 billion, or 3.7 per cent, largely reflecting an increase in agricultural assistance.

Other program expenses increased by \$3.2 billion, 7.4 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were up 0.7 per cent, primarily due to an increase in the average effective interest rate on the stock of interest-bearing debt.

## **Financial source of \$4.0 billion for April to December 2006**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary

balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a requirement of \$3.3 billion in the April-to-December period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from a \$7.1-billion requirement in the same period of 2005-06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005-06.

With a budgetary surplus of \$7.3 billion and a requirement of \$3.3 billion from non-budgetary transactions, there was a net financial source of \$4.0 billion in the first nine months of 2006-07 compared to a net financial source of \$0.4 billion in the same period of 2005-06.

## **Net financing activities down \$17.9 billion**

The Government used this net financial source of \$4.0 billion and a reduction in its cash balances of \$13.9 billion to reduce its market debt by \$17.9 billion by the end of December 2006, largely through a reduction of treasury bills, marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of December stood at \$4.1 billion.

Table 1  
Summary statement of transactions

	December		April to December	
	2005	2006	2005–06	2006–07
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	17,771	19,127	157,538	165,315
Expenses				
Program expenses	-14,336	-15,127	-124,728	-132,583
Public debt charges	-2,521	-2,827	-25,310	-25,477
Budgetary balance (deficit/surplus)	914	1,173	7,500	7,255
<b>Non-budgetary transactions</b>	965	54	-7,055	-3,260
<b>Financial source/requirement</b>	1,879	1,227	445	3,995
<b>Net change in financing activities</b>	-4,398	-10,504	-13,095	-17,887
<b>Net change in cash balances</b>	-2,519	-9,277	-12,650	-13,892
<b>Cash balance at end of period</b>			4,509	4,067

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	December			April to December		
	2005	2006	Change	2005–06	2006–07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	9,155	10,044	9.7	73,494	80,296	9.3
Corporate income tax	2,512	3,325	32.4	19,974	22,450	12.4
Other income tax	530	402	-24.2	3,214	3,859	20.1
Total income tax	12,197	13,771	12.9	96,682	106,605	10.3
Excise taxes and duties						
Goods and services tax	2,160	1,841	-14.8	25,157	22,877	-9.1
Customs import duties	265	251	-5.3	2,592	2,680	3.4
Sales and excise taxes	814	778	-4.4	7,272	7,179	-1.3
Air Travellers Security Charge	26	25	-3.8	257	268	4.3
Total excise taxes and duties	3,265	2,895	-11.3	35,278	33,004	-6.4
Total tax revenues	15,462	16,666	7.8	131,960	139,609	5.8
<b>Employment insurance premiums</b>	802	739	-7.9	11,704	10,840	-7.4
<b>Other revenues</b>	1,507	1,722	14.3	13,874	14,866	7.2
<b>Total budgetary revenues</b>	17,771	19,127	7.6	157,538	165,315	4.9

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 3

## Budgetary expenses

	December			April to December		
	2005	2006	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,442	2,566	5.1	21,693	22,745	4.8
Employment insurance benefits	1,154	1,130	-2.1	10,144	9,765	-3.7
Children's benefits	782	985	26.0	6,930	8,304	19.8
Total	4,378	4,681	6.9	38,767	40,814	5.3
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	14,250	15,105	6.0
Canada Social Transfer	686	708	3.2	6,169	6,375	3.3
Total	2,269	2,386	5.2	20,419	21,480	5.2
Fiscal transfers	1,044	1,128	8.0	9,536	9,984	4.7
Canada's cities and communities	167	204	22.2	561	548	-2.3
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-261	-226	-13.4	-2,200	-2,281	3.7
Total	3,219	3,492	8.5	28,316	30,381	7.3
Subsidies and other transfers						
Agriculture and Agri-Food	164	330	101.2	1,060	1,701	60.5
Foreign Affairs and International Trade	215	265	23.3	1,604	1,576	-1.7
Health	137	111	-19.0	1,320	1,372	3.9
Human Resources and Social Development	100	108	8.0	1,145	1,186	3.6
Indian Affairs and Northern Development	380	448	17.9	3,619	3,553	-1.8
Industry	205	266	29.8	1,452	1,518	4.5
Other	503	87	-82.7	3,442	3,236	-6.0
Total	1,704	1,615	-5.2	13,642	14,142	3.7
Total transfer payments	9,301	9,788	5.2	80,725	85,337	5.7
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	110	56	-49.1	978	946	-3.3
Canada Mortgage and Housing Corporation	170	155	-8.8	1,536	1,510	-1.7
Other	322	360	11.8	2,476	2,578	4.1
Total	602	571	-5.1	4,990	5,034	0.9
Defence	1,226	1,375	12.2	10,766	11,627	8.0
All other departments and agencies	3,207	3,393	5.8	28,247	30,585	8.3
Total other program expenses	5,035	5,339	6.0	44,003	47,246	7.4
<b>Total program expenses</b>	14,336	15,127	5.5	124,728	132,583	6.3
<b>Public debt charges</b>	2,521	2,827	12.1	25,310	25,477	0.7
<b>Total budgetary expenses</b>	16,857	17,954	6.5	150,038	158,060	5.3

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	December		April to December	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	914	1,173	7,500	7,255
<b>Non-budgetary transactions</b>				
Capital investing activities	-343	-283	-1,514	-1,572
Other investing activities	-1	1,680	-2,387	-954
Pension and other accounts	241	469	-308	3,853
Other activities				
Accounts payable, receivables, accruals and allowances	-977	-1,652	-7,468	-8,050
Foreign exchange activities	1,769	-380	2,313	1,205
Amortization of tangible capital assets	276	220	2,309	2,258
Total other activities	1,068	-1,812	-2,846	-4,587
<b>Total non-budgetary transactions</b>	965	54	-7,055	-3,260
<b>Net financial source/requirement</b>	1,879	1,227	445	3,995

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	December		April to December	
	2005	2006	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	1,879	1,227	445	3,995
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-6,582	-8,642	-7,992	-5,088
Treasury bills	2,400	-3,200	-100	-6,900
Canada Savings Bonds	-423	-69	-1,368	-1,877
Other	-9	-27	-205	-1,160
Total	-4,614	-11,938	-9,665	-15,025
Foreign currency borrowings	367	26	-3,131	-3,938
Total	-4,247	-11,912	-12,796	-18,963
Cross-currency swap revaluation	-43	1,117	-70	1,335
Unamortized discounts on debt issues	-111	297	-295	-190
Obligations related to capital leases	3	-6	66	-69
<b>Net change in financing activities</b>	-4,398	-10,504	-13,095	-17,887
<b>Change in cash balance</b>	-2,519	-9,277	-12,650	-13,892

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2006	December 31, 2006	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	101,432	92,217	-9,215
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	256,046	-5,088
Treasury bills	131,597	124,697	-6,900
Canada Savings Bonds	17,342	15,465	-1,877
Other	3,102	1,942	-1,160
Subtotal	413,175	398,150	-15,025
Payable in foreign currencies	14,085	10,147	-3,938
Cross-currency swap revaluation account	-2,258	-923	1,335
Unamortized discounts and premiums on market debt	-6,780	-6,970	-190
Obligations related to capital leases	2,927	2,858	-69
Total unmatured debt	421,149	403,262	-17,887
Pension and other accounts			
Public sector pensions	131,062	133,817	2,755
Other employee and veteran future benefits	43,369	44,584	1,215
Other pension and other accounts	5,493	5,376	-117
Total pension and other accounts	179,924	183,777	3,853
Total interest-bearing debt	601,073	587,039	-14,034
<b>Total liabilities</b>	<b>702,505</b>	<b>679,256</b>	<b>-23,249</b>
<b>Financial assets</b>			
Cash and accounts receivable	82,843	67,786	-15,057
Foreign exchange accounts	40,827	39,622	-1,205
Loans, investments and advances (net of allowances)	41,889	42,843	954
<b>Total financial assets</b>	<b>165,559</b>	<b>150,251</b>	<b>-15,308</b>
<b>Net debt</b>	<b>536,946</b>	<b>529,005</b>	<b>-7,941</b>
<b>Non-financial assets</b>	<b>55,447</b>	<b>54,761</b>	<b>-686</b>
<b>Federal debt (accumulated deficit)</b>	<b>481,499</b>	<b>474,244</b>	<b>-7,255</b>

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February 2007



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2007: budgetary surplus of \$2.3 billion

There was a budgetary surplus of \$2.3 billion in January 2007, up \$0.7 billion from the \$1.5-billion surplus in January 2006. Budgetary revenues rose \$0.8 billion, or 3.9 per cent, due to strong growth in corporate income tax and non-resident withholding tax revenues, dampened by declines in other revenue streams. Program expenses decreased by \$0.1 billion, or 0.3 per cent, reflecting a decrease in departmental operating expenses. Public debt charges were up \$0.2 billion.

### April 2006 to January 2007: budgetary surplus of \$9.5 billion

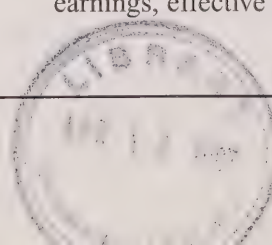
The budgetary surplus is estimated at \$9.5 billion for the first 10 months of the 2006–07 fiscal year, up from the \$9.0-billion surplus posted in the same period of 2005–06. Budgetary revenues rose \$8.6 billion, or 4.8 per cent, reflecting strong growth in income tax revenues, partially offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up \$7.8 billion, or 5.5 per cent, due to both higher transfers and other program expenses. Public debt charges were up \$0.3 billion.

### January 2007

There was a budgetary surplus of \$2.3 billion in January 2007, up from the \$1.5-billion surplus of January 2006.

Budgetary revenues increased by \$0.8 billion, or 3.9 per cent, to \$22.2 billion.

- Personal income tax revenues declined by \$0.2 billion, or 2.3 per cent. The decline partly reflects the inclusion of the monthly cost of the pension income splitting measure introduced in the October 31, 2006, Tax Fairness Plan, a measure which pertains to the 2007 tax year.
- Corporate income tax revenues rose \$0.3 billion, or 12.0 per cent. Corporate income tax revenues can be volatile on a monthly basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—rose \$0.1 billion, or 18.1 per cent, reflecting ongoing strength in the corporate sector. Other income tax revenues can also be volatile on a monthly basis, as the timing of corporate dividend payments, and thus the corresponding tax withheld on those payments, can vary from year to year.
- Excise taxes and duties were up \$0.5 billion. A \$0.5-billion gain in revenue from the one-time charge on duty deposit refunds under the Canada-United States Softwood Lumber Agreement more than offset the decline in goods and services tax (GST) revenues that resulted from the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues increased by 12.9 per cent, reflecting improvements in employment and wages and salaries, which more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.



# The Fiscal Monitor

- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, decreased by \$0.1 billion, or 3.2 per cent.

Program expenses in January 2007 were \$17.1 billion, down \$0.1 billion or 0.3 per cent from January 2006, reflecting a decrease in operating expenses of departments and agencies, partially offset by an increase in transfer payments.

Transfer payments increased \$0.6 billion, or 5.2 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose \$0.4 billion, or 7.6 per cent. Elderly benefits increased by 4.0 per cent. EI benefits increased by 3.4 per cent, reflecting an increase in regular benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up \$0.2 billion, reflecting transfers under the new UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up \$0.2 billion, or 7.0 per cent.
- Subsidies and other transfers decreased by 0.6 per cent. Absent a \$0.5-billion transfer related to the Softwood Lumber Agreement, subsidies and other transfers would have declined some 17 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National

Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses decreased \$0.6 billion, or 10.1 per cent, reflecting decreases across a number of departments.

Public debt charges were up \$0.2 billion due to an increase in the average effective interest rate on the stock of interest-bearing debt.

## April 2006 to January 2007

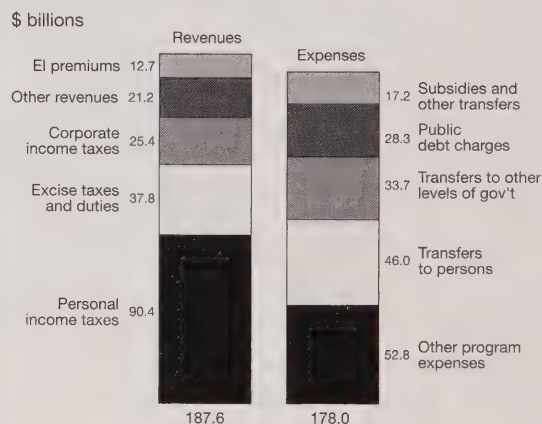
In the first 10 months of the 2006–07 fiscal year, there was a budgetary surplus of \$9.5 billion, up \$0.5 billion from the \$9.0-billion surplus reported for the same period of 2005–06.

Budgetary revenues were up \$8.6 billion, or 4.8 per cent, to \$187.6 billion.

- Personal income tax revenues rose \$6.6 billion, or 7.8 per cent, reflecting the interaction of solid growth in employment and wages and salaries with the progressivity of the personal income tax system.
- Corporate income tax revenues were up \$2.8 billion, or 12.4 per cent, reflecting ongoing gains in profitability in 2005 and 2006, particularly in the energy sector.

## Revenues and expenses

(April 2006 to January 2007)



- Other income tax revenues rose \$0.8 billion, or 19.7 per cent, boosted by a one-time payment in November 2006 related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by \$1.8 billion, or 4.5 per cent, primarily due to a \$2.5-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. This decline was partially offset by \$0.5 billion in one-time revenue from the charge on duty deposit refunds under the Softwood Lumber Agreement, which raised sales and excise tax revenues by \$0.5 billion, or 6.5 per cent. Customs import duties rose \$0.1 billion, or 4.3 per cent, while revenues from the Air Travellers Security Charge were up \$16 million.
- EI premium revenues declined by 4.8 per cent, reflecting the declines in the premium rate in 2006 and 2007, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective January 1, 2006.
- Other revenues rose \$0.9 billion, or 6.0 per cent.

Program expenses in the April 2006 to January 2007 period were \$149.7 billion, up \$7.8 billion, or 5.5 per cent, over the same period of 2005–06 due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.3 billion.

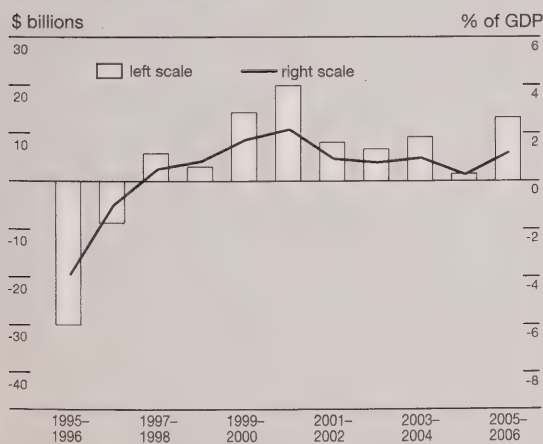
Transfer payments, which account for about two-thirds of total program expenses, increased by \$5.2 billion, or 5.6 per cent.

- Transfers to persons grew 5.5 per cent. Elderly benefits rose 4.8 per cent while EI benefits declined by 2.8 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 20.6 per cent, reflecting transfers under the new UCCB program, which began on July 1, 2006.
- Transfers to other levels of government were up \$2.3 billion, or 7.3 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.5 billion, or 2.9 per cent, reflecting an increase in agricultural assistance and transfers under the Softwood Lumber Agreement.

Other program expenses increased by \$2.6 billion, 5.2 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

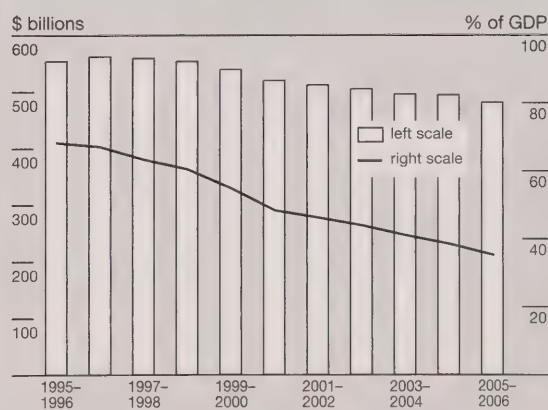
Public debt charges were up 1.2 per cent due mainly to an increase in the average effective interest rate on the stock of interest-bearing debt.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



## **Financial source of \$6.3 billion for April 2006 to January 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a requirement of \$3.2 billion in the April 2006 to January 2007 period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from a \$4.9-billion requirement in the same period of 2005-06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005-06.

With a budgetary surplus of \$9.5 billion and a requirement of \$3.2 billion from non-budgetary transactions, there was a net financial source of \$6.3 billion in the first 10 months of 2006-07 compared to a net financial source of \$4.1 billion in the same period of 2005-06.

## **Net financing activities down \$20.7 billion**

The Government used this net financial source of \$6.3 billion and a reduction in its cash balances of \$14.4 billion to reduce its market debt by \$20.7 billion by the end of January 2007. This reduction in market debt is \$2.2 billion higher than the \$18.5-billion reduction during the same period last year, due to the larger financial source over the April 2006 to January 2007 period. The reduction in market debt was achieved largely through a reduction of treasury bills, marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of January stood at \$3.6 billion.

Table 1  
Summary statement of transactions

	January		April to January	
	2006	2007	2005-06	2006-07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	21,399	22,242	178,937	187,557
Expenses				
Program expenses	-17,185	-17,128	-141,913	-149,711
Public debt charges	-2,676	-2,835	-27,986	-28,312
Budgetary balance (deficit/surplus)	1,538	2,279	9,038	9,534
<b>Non-budgetary transactions</b>	2,126	72	-4,929	-3,188
<b>Financial source/requirement</b>	3,664	2,351	4,109	6,346
<b>Net change in financing activities</b>	-5,390	-2,838	-18,485	-20,725
<b>Net change in cash balances</b>	-1,726	-487	-14,376	-14,379
<b>Cash balance at end of period</b>			2,780	3,578

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	January			April to January		
	2006	2007	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	10,378	10,139	-2.3	83,872	90,435	7.8
Corporate income tax	2,599	2,911	12.0	22,573	25,361	12.4
Other income tax	696	822	18.1	3,910	4,681	19.7
Total income tax	13,673	13,872	1.5	110,355	120,477	9.2
Excise taxes and duties						
Goods and services tax	3,345	3,174	-5.1	28,502	26,051	-8.6
Customs import duties	244	277	13.5	2,836	2,957	4.3
Sales and excise taxes	711	1,326	86.5	7,983	8,505	6.5
Air Travellers Security Charge	22	27	22.7	279	295	5.7
Total excise taxes and duties	4,322	4,804	11.2	39,600	37,808	-4.5
Total tax revenues	17,995	18,676	3.8	149,955	158,285	5.6
<b>Employment insurance premiums</b>	1,677	1,894	12.9	13,381	12,734	-4.8
<b>Other revenues</b>	1,727	1,672	-3.2	15,601	16,538	6.0
<b>Total budgetary revenues</b>	21,399	22,242	3.9	178,937	187,557	4.8

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	January		Change	April to January		Change
	2006	2007		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,491	2,590	4.0	24,184	25,335	4.8
Employment insurance benefits	1,570	1,623	3.4	11,714	11,388	-2.8
Children's benefits	781	999	27.9	7,711	9,303	20.6
Total	4,842	5,212	7.6	43,609	46,026	5.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	15,833	16,783	6.0
Canada Social Transfer	685	708	3.4	6,854	7,083	3.3
Total	2,268	2,386	5.2	22,687	23,866	5.2
Fiscal transfers	1,061	1,139	7.4	10,597	11,123	5.0
Canada's cities and communities	14	0	-100.0	575	548	-4.7
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-261	-227	-13.0	-2,461	-2,508	1.9
Total	3,082	3,298	7.0	31,398	33,679	7.3
Subsidies and other transfers						
Agriculture and Agri-Food	871	556	-36.2	1,931	2,257	16.9
Foreign Affairs and International Trade	333	834	150.5	1,937	2,410	24.4
Health	207	231	11.6	1,527	1,603	5.0
Human Resources and Social Development	463	197	-57.5	1,608	1,383	-14.0
Indian Affairs and Northern Development	367	376	2.5	3,986	3,929	-1.4
Industry	158	147	-7.0	1,610	1,665	3.4
Other	681	720	5.7	4,123	3,956	-4.1
Total	3,080	3,061	-0.6	16,722	17,203	2.9
Total transfer payments	11,004	11,571	5.2	91,729	96,908	5.6
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	50	96	92.0	1,028	1,042	1.4
Canada Mortgage and Housing Corporation	171	205	19.9	1,707	1,715	0.5
Other	285	294	3.2	2,761	2,872	4.0
Total	506	595	17.6	5,496	5,629	2.4
Defence	1,569	1,422	-9.4	12,335	13,049	5.8
All other departments and agencies	4,106	3,540	-13.8	32,353	34,125	5.5
Total other program expenses	6,181	5,557	-10.1	50,184	52,803	5.2
<b>Total program expenses</b>	17,185	17,128	-0.3	141,913	149,711	5.5
<b>Public debt charges</b>	2,676	2,835	5.9	27,986	28,312	1.2
<b>Total budgetary expenses</b>	19,861	19,963	0.5	169,899	178,023	4.8

Note: Totals may not add due to rounding.



Table 4

## The budgetary balance and financial source/requirement

	January		April to January	
	2006	2007	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,538	2,279	9,038	9,534
<b>Non-budgetary transactions</b>				
Capital investing activities	-301	-177	-1,815	-1,749
Other investing activities	359	-20	-2,028	-974
Pension and other accounts	205	-156	-103	3,697
Other activities				
Accounts payable, receivables, accruals and allowances	1,339	1,706	-6,129	-6,344
Foreign exchange activities	284	-1,487	2,597	-282
Amortization of tangible capital assets	240	206	2,549	2,464
Total other activities	1,863	425	-983	-4,162
<b>Total non-budgetary transactions</b>	2,126	72	-4,929	-3,188
<b>Net financial source/requirement</b>	3,664	2,351	4,109	6,346

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	January		April to January	
	2006	2007	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	3,664	2,351	4,109	6,346
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	221	2,120	-7,771	-2,968
Treasury bills	-5,100	-5,700	-5,200	-12,600
Canada Savings Bonds	-103	-74	-1,471	-1,951
Other	-18	0	-223	-1,160
Total	-5,000	-3,654	-14,665	-18,679
Foreign currency borrowings	-428	507	-3,559	-3,431
Total	-5,428	-3,147	-18,224	-22,110
Cross-currency swap revaluation	0	96	-70	1,431
Unamortized discounts on debt issues	43	219	-252	29
Obligations related to capital leases	-5	-6	61	-75
<b>Net change in financing activities</b>	-5,390	-2,838	-18,485	-20,725
<b>Change in cash balance</b>	-1,726	-487	-14,376	-14,379

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2006	January 31, 2007	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	101,432	94,860	-6,572
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	258,166	-2,968
Treasury bills	131,597	118,997	-12,600
Canada Savings Bonds	17,342	15,391	-1,951
Other	3,102	1,942	-1,160
Subtotal	413,175	394,496	-18,679
Payable in foreign currencies	14,085	10,654	-3,431
Cross-currency swap revaluation account	-2,258	-827	1,431
Unamortized discounts and premiums on market debt	-6,780	-6,751	29
Obligations related to capital leases	2,927	2,852	-75
Total unmaturred debt	421,149	400,424	-20,725
Pension and other accounts			
Public sector pensions	131,062	133,986	2,924
Other employee and veteran future benefits	43,369	44,719	1,350
Other pension and other accounts	5,493	4,916	-577
Total pension and other accounts	179,924	183,621	3,697
Total interest-bearing debt	601,073	584,015	-17,028
<b>Total liabilities</b>	<b>702,505</b>	<b>678,905</b>	<b>-23,600</b>
<b>Financial assets</b>			
Cash and accounts receivable	82,843	68,236	-14,607
Foreign exchange accounts	40,827	41,109	282
Loans, investments and advances (net of allowances)	41,889	42,863	974
<b>Total financial assets</b>	<b>165,559</b>	<b>152,208</b>	<b>-13,351</b>
<b>Net debt</b>	<b>536,946</b>	<b>526,697</b>	<b>-10,249</b>
<b>Non-financial assets</b>	<b>55,447</b>	<b>54,732</b>	<b>-715</b>
<b>Federal debt (accumulated deficit)</b>	<b>481,499</b>	<b>471,965</b>	<b>-9,534</b>

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*Ce document est également offert en français.*

March 2007

# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### February 2007: budgetary surplus of \$4.6 billion

There was a budgetary surplus of \$4.6 billion in February 2007, up \$0.6 billion from the \$3.9-billion surplus in February 2006. Budgetary revenues rose \$1.8 billion, or 8.6 per cent, due primarily to strong growth in corporate income tax revenues, partially offset by a decline in goods and services tax (GST) revenues resulting from the July 1, 2006, rate reduction. Program expenses increased by \$1.2 billion, or 8.3 per cent, reflecting an increase in transfer payments and departmental operating expenses. Public debt charges were virtually unchanged.

### April 2006 to February 2007: budgetary surplus of \$9.2 billion, including the cost of Budget 2007 proposals

The budgetary surplus is estimated at \$14.1 billion for the first 11 months of the 2006–07 fiscal year, up from the \$13.0-billion surplus posted in the same period of 2005–06. Budgetary revenues rose \$10.4 billion, or 5.2 per cent, reflecting strong growth in income tax revenues. Program expenses were up \$9.0 billion, or 5.7 per cent, due to both higher transfers and other program expenses. Public debt charges were up \$0.3 billion.

The results to date are broadly consistent with the Budget 2007 projection of a final surplus of \$9.2 billion for 2006–07.

- The monthly results through February do not reflect \$4.9 billion in measures announced in Budget 2007 and which will take effect in 2006–07, including the new child tax credit, the Canada ecoTrust for Clean Air and Climate Change, and the Patient Wait Times Guarantee Trust. The cost of these measures will be reflected in March and the end-of-year supplementary period. Deducting the cost of these measures from the \$14.1-billion year-to-date surplus would yield a surplus of \$9.2 billion.
- The final outcome for 2006–07 will be determined by results in March and the end-of-year supplementary period.

## February 2007

There was a budgetary surplus of \$4.6 billion in February 2007, up from the \$3.9-billion surplus in February 2006.

Budgetary revenues increased by \$1.8 billion, or 8.6 per cent, to \$22.8 billion.

- Personal income tax revenues rose \$0.2 billion, or 2.6 per cent. This reflects a one-time adjustment in February 2007 that raised employment insurance (EI) premium revenues by \$0.4 billion and lowered personal income tax

revenues by an equal and offsetting amount, with no net impact on the budgetary balance. The adjustment unwinds an understatement of EI premium revenues thus far in 2006–07 and a corresponding overstatement of personal income tax revenues (both of which are withheld by employers at source).

- Corporate income tax revenues rose \$1.2 billion, or 23.7 per cent, due in part to a large refund paid in February 2006, which lowered net receipts in that month. Corporate income tax revenues can be volatile on a monthly basis,





as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.

- Other income tax revenues—withholdings from non-residents—rose 12.2 per cent, reflecting ongoing strength in corporate profitability. Other income tax revenues can also be volatile on a monthly basis, as they are determined in large part by corporate dividend payments.
- Excise taxes and duties were down \$0.5 billion. GST revenues dropped by \$0.7 billion, or 24.6 per cent, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006, and a number of large remittances made by companies in February 2006. The decline in GST revenues was partially offset by strong growth in customs import duties (up \$0.1 billion, or 48.9 per cent).
- EI premium revenues increased by \$0.6 billion, largely due to the one-time \$0.4-billion adjustment noted above.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments and foreign exchange revenues, increased by \$0.3 billion, or 17.6 per cent.

Program expenses in February 2007 were \$15.5 billion, up \$1.2 billion or 8.3 per cent from February 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments increased by \$0.8 billion, or 8.3 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose \$0.4 billion, or 7.9 per cent. Elderly benefits increased by 3.8 per cent. EI benefits increased by 4.9 per cent, reflecting an increase in regular benefits. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), were up \$0.2 billion, reflecting transfers under the UCCB.

- Transfers to other levels of government, consisting of transfers in support of the Canada Health Transfer and Canada Social Transfer, fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up \$0.3 billion, or 8.7 per cent.
- Subsidies and other transfers increased by \$0.1 billion, or 8.7 per cent, reflecting increases across a number of departments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$0.4 billion, or 8.1 per cent.

Public debt charges decreased by \$13 million, or 0.5 per cent.

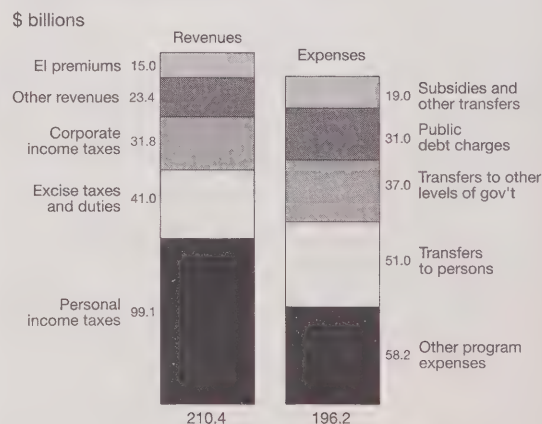
## April 2006 to February 2007

In the first 11 months of the 2006–07 fiscal year, there was a budgetary surplus of \$14.1 billion, up \$1.1 billion from the \$13.0-billion surplus reported for the same period of 2005–06.

Budgetary revenues were up \$10.4 billion, or 5.2 per cent, to \$210.4 billion.

### Revenues and expenses

(April 2006 to February 2007)



- Personal income tax revenues increased by \$6.8 billion, or 7.3 per cent, reflecting solid growth in employment and wages and salaries combined with the progressive nature of the personal income tax system.
- Corporate income tax revenues rose \$4.0 billion, or 14.5 per cent, reflecting gains in profitability in 2005 and 2006, particularly in the energy sector.
- Other income tax revenues rose \$0.8 billion, or 19.0 per cent, boosted by a one-time payment in November 2006 related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by \$2.3 billion, or 5.3 per cent, primarily due to a \$3.1-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. This decline was partially offset by the one-time charge on duty deposit refunds under the Canada-United States Softwood Lumber Agreement, which raised sales and excise tax revenues by \$0.5 billion in January and February. Sales and excise tax revenues were also boosted by the introduction of an export charge on softwood lumber exports to the U.S., effective October 12, 2006, consistent with the Agreement. Over the fiscal year as a whole, there will be no net budgetary impact from either the charge on duty deposit refunds or the export charge: revenues from the former are transferred to U.S. interests under the terms of the Agreement and revenues from the latter, net

of the costs of administering the Agreement, will be transferred to provincial governments. In total, sales and excise tax revenues rose \$0.6 billion, or 6.8 per cent. Customs import duties were up \$0.2 billion, or 7.7 per cent, while revenues from the Air Travellers Security Charge were up \$10 million.

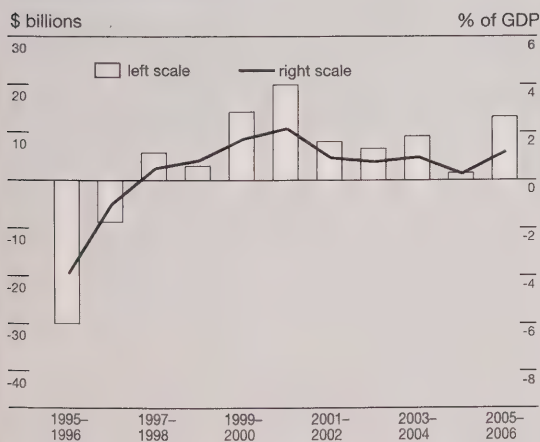
- EI premium revenues declined by 0.6 per cent, reflecting the declines in the premium rate in 2006 and 2007, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective January 1, 2006.
- Other revenues rose \$1.2 billion, or 7.0 per cent.

Program expenses in the April 2006 to February 2007 period were \$165.2 billion, up \$9.0 billion, or 5.7 per cent, from the same period of 2005–06 due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.3 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$6.0 billion, or 5.9 per cent.

- Transfers to persons grew by 5.8 per cent. Elderly benefits rose 4.7 per cent while EI benefits declined 2.0 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 21.2 per cent, reflecting transfers under the new UCCB program, which began in July 2006.

- Transfers to other levels of government were up \$2.5 billion, or 7.4 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.6 billion, or 3.4 per cent, reflecting an increase in agricultural assistance and transfers to U.S. interests under the Canada-U.S. Softwood Lumber Agreement.

Other program expenses increased by \$3.0 billion, 5.5 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were up 1.0 per cent, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

## **Financial source of \$8.4 billion for April 2006 to February 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing

activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a requirement of \$5.7 billion in the April 2006 to February 2007 period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from a \$7.1-billion requirement in the same period of 2005-06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005-06.

With a budgetary surplus of \$14.1 billion and a requirement of \$5.7 billion from non-budgetary transactions, there was a net financial source of \$8.4 billion in the first 11 months of 2006-07 compared to a net financial source of \$5.9 billion in the same period of 2005-06.

## **Net financing activities down \$17.4 billion**

The Government used this net financial source of \$8.4 billion and a reduction in its cash balances of \$9.0 billion to reduce its market debt by \$17.4 billion by the end of February 2007. The reduction in market debt was achieved largely through a reduction of treasury bills, marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of February stood at \$8.9 billion.



Table 1

## Summary statement of transactions

	February		April to February	
	2006	2007	2005–06	2006–07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	20,999	22,806	199,936	210,363
Expenses				
Program expenses	-14,320	-15,502	-156,233	-165,213
Public debt charges	-2,731	-2,718	-30,717	-31,030
Budgetary balance (deficit/surplus)	3,948	4,586	12,986	14,120
<b>Non-budgetary transactions</b>	-2,131	-2,526	-7,060	-5,714
<b>Financial source/requirement</b>	1,817	2,060	5,926	8,406
<b>Net change in financing activities</b>	-498	3,280	-18,983	-17,445
<b>Net change in cash balances</b>	1,319	5,340	-13,057	-9,039
<b>Cash balance at end of period</b>			4,099	8,920

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	February			April to February		
	2006	2007	Change	2005–06	2006–07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,422	8,638	2.6	92,294	99,073	7.3
Corporate income tax	5,226	6,466	23.7	27,799	31,827	14.5
Other income tax	411	461	12.2	4,321	5,142	19.0
Total income tax	14,059	15,565	10.7	124,414	136,042	9.3
Excise taxes and duties						
Goods and services tax	2,831	2,134	-24.6	31,333	28,185	-10.0
Customs import duties	237	353	48.9	3,073	3,310	7.7
Sales and excise taxes	643	707	10.0	8,626	9,212	6.8
Air Travellers Security Charge	37	31	-16.2	316	326	3.2
Total excise taxes and duties	3,748	3,225	-14.0	43,348	41,033	-5.3
Total tax revenues	17,807	18,790	5.5	167,762	177,075	5.6
<b>Employment insurance premiums</b>	1,710	2,273	32.9	15,091	15,007	-0.6
<b>Other revenues</b>	1,482	1,743	17.6	17,083	18,281	7.0
<b>Total budgetary revenues</b>	20,999	22,806	8.6	199,936	210,363	5.2

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	February			April to February		
	2006	2007	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,496	2,591	3.8	26,680	27,926	4.7
Employment insurance benefits	1,355	1,421	4.9	13,069	12,809	-2.0
Children's benefits	758	962	26.9	8,469	10,265	21.2
Total	4,609	4,974	7.9	48,218	51,000	5.8
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,584	1,679	6.0	17,417	18,462	6.0
Canada Social Transfer	686	709	3.4	7,540	7,792	3.3
Total	2,270	2,388	5.2	24,957	26,254	5.2
Fiscal transfers	1,044	1,126	7.9	11,641	12,249	5.2
Canada's cities and communities	0	31	n/a	575	579	0.7
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-261	-226	-13.4	-2,722	-2,734	0.4
Total	3,053	3,319	8.7	34,451	36,998	7.4
Subsidies and other transfers						
Agriculture and Agri-Food	107	159	48.6	2,038	2,416	18.5
Foreign Affairs and International Trade	247	289	17.0	2,184	2,699	23.6
Health	106	131	23.6	1,633	1,734	6.2
Human Resources and Social Development	140	126	-10.0	1,748	1,509	-13.7
Indian Affairs and Northern Development	277	317	14.4	4,263	4,246	-0.4
Industry	168	194	15.5	1,778	1,859	4.6
Other	581	552	-5.0	4,704	4,508	-4.2
Total	1,626	1,768	8.7	18,348	18,971	3.4
Total transfer payments	9,288	10,061	8.3	101,017	106,969	5.9
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	70	72	2.9	1,098	1,114	1.5
Canada Mortgage and Housing Corporation	150	177	18.0	1,857	1,892	1.9
Other	311	223	-28.3	3,072	3,095	0.7
Total	531	472	-11.1	6,027	6,101	1.2
Defence	1,223	1,345	10.0	13,557	14,394	6.2
All other departments and agencies	3,278	3,624	10.6	35,632	37,749	5.9
Total other program expenses	5,032	5,441	8.1	55,216	58,244	5.5
<b>Total program expenses</b>	14,320	15,502	8.3	156,233	165,213	5.7
<b>Public debt charges</b>	2,731	2,718	-0.5	30,717	31,030	1.0
<b>Total budgetary expenses</b>	17,051	18,220	6.9	186,950	196,243	5.0

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	February		April to February	
	2006	2007	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	3,948	4,586	12,986	14,120
<b>Non-budgetary transactions</b>				
Capital investing activities	-293	-447	-2,108	-2,196
Other investing activities	-627	-2	-2,655	-976
Pension and other accounts	-260	612	-363	4,309
Other activities				
Accounts payable, receivables, accruals and allowances	-1,164	-2,996	-7,293	-9,340
Foreign exchange activities	14	-22	2,611	-304
Amortization of tangible capital assets	199	329	2,748	2,793
Total other activities	-951	-2,689	-1,934	-6,851
<b>Total non-budgetary transactions</b>	-2,131	-2,526	-7,060	-5,714
<b>Net financial source/requirement</b>	1,817	2,060	5,926	8,406

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	February		April to February	
	2006	2007	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	1,817	2,060	5,926	8,406
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,245	-1,253	-5,526	-4,221
Treasury bills	-2,100	5,000	-7,300	-7,600
Canada Savings Bonds	-138	-132	-1,609	-2,083
Other	0	-13	-223	-1,173
Total	7	3,602	-14,658	-15,077
Foreign currency borrowings	-361	-287	-3,920	-3,718
Total	-354	3,315	-18,578	-18,795
Cross-currency swap revaluation	-1	43	-71	1,474
Unamortized discounts on debt issues	-147	-75	-399	-46
Obligations related to capital leases	4	-3	65	-78
<b>Net change in financing activities</b>	-498	3,280	-18,983	-17,445
<b>Change in cash balance</b>	1,319	5,340	-13,057	-9,039

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2006	February 28, 2007	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	101,432	98,049	-3,383
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	256,913	-4,221
Treasury bills	131,597	123,997	-7,600
Canada Savings Bonds	17,342	15,259	-2,083
Other	3,102	1,929	-1,173
Subtotal	413,175	398,098	-15,077
Payable in foreign currencies	14,085	10,367	-3,718
Cross-currency swap revaluation account	-2,258	-784	1,474
Unamortized discounts and premiums on market debt	-6,780	-6,826	-46
Obligations related to capital leases	2,927	2,849	-78
Total unmaturred debt	421,149	403,704	-17,445
Pension and other accounts			
Public sector pensions	131,062	134,193	3,131
Other employee and veteran future benefits	43,369	44,854	1,485
Other pension and other accounts	5,493	5,186	-307
Total pension and other accounts	179,924	184,233	4,309
Total interest-bearing debt	601,073	587,937	-13,136
<b>Total liabilities</b>	702,505	685,986	-16,519
<b>Financial assets</b>			
Cash and accounts receivable	82,843	79,761	-3,082
Foreign exchange accounts	40,827	41,131	304
Loans, investments and advances (net of allowances)	41,889	42,865	976
<b>Total financial assets</b>	165,559	163,757	-1,802
<b>Net debt</b>	536,946	522,229	-14,717
<b>Non-financial assets</b>	55,447	54,850	-597
<b>Federal debt (accumulated deficit)</b>	481,499	467,379	-14,120

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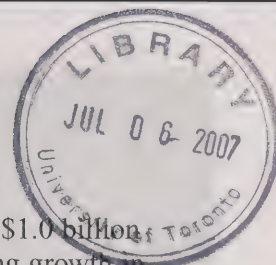
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April 2007

# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### March 2007: budgetary deficit of \$0.4 billion

There was a budgetary deficit of \$0.4 billion in March 2007, compared to a deficit of \$1.0 billion reported in March 2006. Budgetary revenues rose \$0.5 billion, or 2.7 per cent, as strong growth in corporate income tax revenues was partially offset by declines in personal income tax revenues and goods and services tax (GST) revenues. The drop in personal income tax revenues was due to the accrual of the costs of measures announced in Budget 2007. The drop in GST revenues resulted from the July 1, 2006, rate reduction. Program expenses increased by \$0.2 billion, or 0.9 per cent, reflecting an increase in departmental operating expenses. Public debt charges decreased by \$0.2 billion.

### April 2006 to March 2007: budgetary surplus of \$9.7 billion, after deducting the cost of budget measures

For the April 2006 to March 2007 period, the budgetary surplus is estimated at \$13.7 billion, up from the \$12.0-billion surplus posted in the same period of 2005–06. Budgetary revenues rose \$11.0 billion, or 5.0 per cent, reflecting strong growth in income tax revenues. Program expenses were up \$9.2 billion, or 5.2 per cent, due to both higher transfers and other program expenses. Public debt charges were up \$0.1 billion.

The April 2006 to March 2007 monthly results are not the final results for the year as a whole. They do not yet reflect \$4.0 billion in spending for 2006–07 announced in Budget 2007, including the Clean Air and Climate Change Trust Fund and the Patient Wait Times Guarantee Trust. The cost of these measures will be reflected in the supplementary period. Deducting the cost of these measures brings the April 2006 to March 2007 surplus to \$9.7 billion, \$500 million higher than the \$9.2-billion surplus projected in Budget 2007. However, the year-to-date results do not yet reflect the regular end-of-year accrual adjustments, which include final tax accrual adjustments as well as estimates of the cost of liabilities incurred during the fiscal year but for which no payment has yet been made.

A discussion of the March results and the budget forecast for 2006–07 is provided later in this document.

### March 2007

There was a budgetary deficit of \$0.4 billion in March 2007, compared to a deficit of \$1.0 billion in March 2006.

Budgetary revenues increased by \$0.5 billion, or 2.7 per cent, to \$20.7 billion.

- Personal income tax revenues declined by \$0.3 billion or 3.4 per cent. The decline was due to the accrual of \$0.6 billion for the cost of Budget 2007 measures pertaining to the first three months of 2007, notably the Working Income Tax Benefit, the child tax credit and increases to the spousal and other amounts, all of which are retroactive to January 1, 2007.



- Corporate income tax revenues rose \$0.6 billion, or 14.0 per cent. Corporate income tax revenues can be volatile on a monthly basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—were down 2.0 per cent.
- Excise taxes and duties were down \$0.3 billion. GST revenues declined by \$0.2 billion, or 11.2 per cent, largely reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006. Customs import duties were down \$41 million, sales and excise tax revenues declined by \$44 million, and revenues from the Air Travellers Security Charge were \$5 million lower.
- Employment insurance (EI) premium revenues increased by \$0.1 billion, or 8.6 per cent, reflecting improvements in employment and wages and salaries, which more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments and foreign exchange revenues, increased by \$0.4 billion. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

Program expenses in March 2007 were \$18.3 billion, up \$0.2 billion, or 0.9 per cent, from March 2006, reflecting an increase in operating expenses of departments and agencies, partially offset by a decrease in transfer payments.

Transfer payments decreased by \$48 million, or 0.4 per cent.

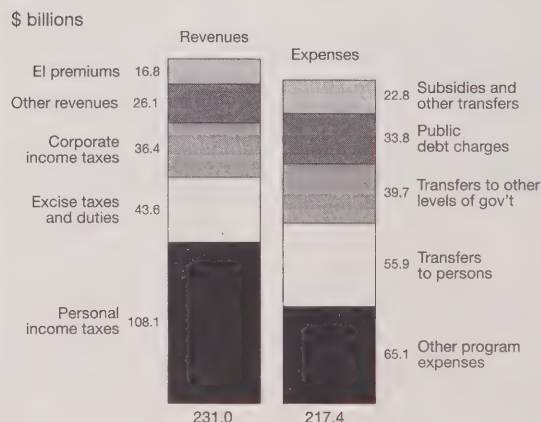
- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose \$0.3 billion, or 6.4 per cent. Elderly benefits increased 3.7 per cent. EI benefits were virtually unchanged. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), were up \$0.2 billion, reflecting transfers under the UCCB.
- Transfers to other levels of government, consisting of transfers in support of the Canada Health Transfer and Canada Social Transfer, fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were down \$0.3 billion, or 11.2 per cent. The decline reflects the low level of recoveries under Alternative Payments for Standing Programs recorded in March 2006.
- Subsidies and other transfers were unchanged.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$0.2 billion, or 3.3 per cent.

Public debt charges decreased by \$0.2 billion, or 6.5 per cent.

## Revenues and expenses

(April 2006 to March 2007)





## April 2006 to March 2007

For the April 2006 to March 2007 period, there was a budgetary surplus of \$13.7 billion, up \$1.7 billion from the \$12.0-billion surplus reported for the same period of 2005–06.

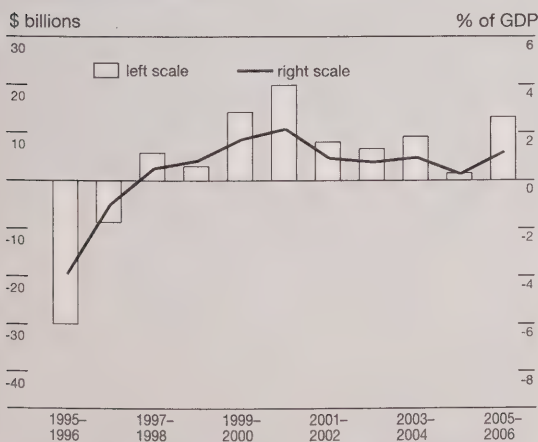
Budgetary revenues rose \$11.0 billion, or 5.0 percent, to \$231.0 billion.

- Personal income tax revenues increased by \$6.5 billion, or 6.4 per cent. This reflected solid growth in employment and wages and salaries combined with the progressive nature of the personal income tax system. These factors pushing up revenues were partially offset by tax relief measures announced in Budget 2007 and the October 31, 2006, Tax Fairness Plan.
- Corporate income tax revenues rose \$4.6 billion, or 14.4 per cent, reflecting ongoing strength in profitability in 2005 and 2006.
- Other income tax revenues rose \$0.8 billion, or 17.4 per cent, boosted by a one-time payment in November 2006 related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by \$2.6 billion, or 5.6 per cent, driven by a \$3.3-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. This decline was partially offset by the one-time charge on duty deposit refunds under the Canada-United States Softwood

Lumber Agreement, which raised sales and excise tax revenues by \$0.5 billion in January and February. Sales and excise tax revenues were also boosted by the introduction of an export charge on softwood lumber exports to the U.S., effective October 12, 2006, consistent with the Agreement. Over the fiscal year as a whole, there will be no net budgetary impact from either the charge on duty deposit refunds or the export charge: revenues from the former are transferred to U.S. interests under the terms of the Agreement and revenues from the latter, net of the costs of administering the Agreement, will be transferred to provincial governments. In total, sales and excise tax revenues rose \$0.5 billion, or 5.8 per cent. Customs import duties were up \$0.2 billion, or 5.7 per cent, while revenues from the Air Travellers Security Charge were up \$5 million.

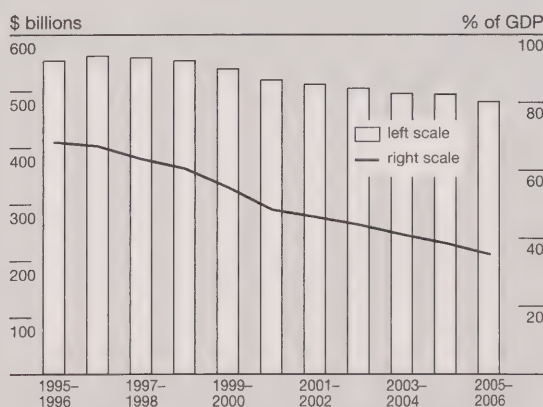
- EI premium revenues increased by 0.4 per cent, reflecting improvements in employment and wages and salaries during the year, which more than offset the declines in the premium rate in 2006 and 2007, as well as the impact of the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective January 1, 2006.
- Other revenues rose \$1.6 billion, or 8.6 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Program expenses in the April 2006 to March 2007 period were \$183.5 billion, up \$9.2 billion, or 5.2 per cent, from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.1 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$5.9 billion, or 5.2 per cent.

- Transfers to persons grew by 5.8 per cent. Elderly benefits rose 4.6 per cent while EI benefits declined by 1.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 21.7 per cent, reflecting transfers under the new UCCB program, which began in July 2006.
- Transfers to other levels of government were up \$2.2 billion, or 5.9 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.6 billion, or 2.8 per cent, largely reflecting transfers to U.S. interests under the Canada-U.S. Softwood Lumber Agreement.

Other program expenses increased by \$3.2 billion, or 5.2 per cent, due to an increase in the operating costs of departments and agencies.

Public debt charges were up 0.4 per cent, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

## **Financial source of \$10.6 billion for April 2006 to March 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$13.7 billion and a requirement of \$3.1 billion from non-budgetary transactions, there was a net financial source of \$10.6 billion in the April 2006 to March 2007 period, compared to a net financial source of \$7.2 billion in the same period of 2005–06.

## **Net financing activities down \$7.4 billion**

The Government used this net financial source of \$10.6 billion to increase its cash balances by \$3.3 billion and reduce its market debt by \$7.4 billion by the end of March 2007. The reduction in market debt was achieved largely through a reduction of marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of March stood at \$21.2 billion.

## Quarterly update of the fiscal outlook for 2006–07

The monthly results for the 12-month period ended March 2007 are generally consistent with the forecast presented in the 2007 budget, which was prepared based on monthly financial information through January 2007.

- Through the end of March 2007, revenues are somewhat lower than projected in the budget. Public debt charges and program expenses are also lower. However, program expenses to date do not reflect \$4.0 billion in spending pertaining to 2006–07 announced in Budget 2007, including the Clean Air and Climate Change Trust Fund and the Patient Wait Times Guarantee Trust. The cost of these measures will be reflected in the supplementary period. Adjusting for the cost of these measures brings the April 2006 to March 2007 surplus to \$9.7 billion. This is \$500 million higher than the \$9.2-billion surplus projected in Budget 2007.
- Significantly, the year-to-date results do not reflect a number of other important adjustments to revenues and expenses that will be made once further information becomes available.
- The monthly estimates of personal income taxes are based on source deductions with estimates of tax accruals. The final accruals will reflect assessments of tax returns for 2006 now underway at the Canada Revenue Agency. The final personal income tax outcome can vary significantly from the monthly estimates due to factors such as the magnitude of registered retirement savings plan contributions and variations in capital gains and losses reported at tax filing.
- Similarly, while the monthly results attempt to reflect the most up-to-date information on the Government's legal and environmental liabilities, provisions for guarantees, and allowances for valuation of loans, investments and advances, changes to estimated assets and liabilities are made up to the time that the financial statements are closed, normally in late August.

## Financial results through March 2007 and the Budget 2007 projected outcome for 2006–07

	Budget 2007 Projected Outcome for 2006–07	April 2006 to March 2007	Difference
		(\$ billions)	
Revenues	232.3	231.0	-1.3
Expenses			
Program expenses	189.0	183.5	-5.5
Public debt charges	34.1	33.8	-0.3
Budgetary balance (deficit/surplus)		13.7	4.5
less Budget 2007 measures not in year-to-date results:		-4.0	
Budgetary balance including Budget 2007 measures (deficit/surplus)	9.2	9.7	0.5



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	March		April to March	
	2006	2007	2005-06	2006-07
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	20,131	20,673	220,067	231,036
Expenses				
Program expenses	-18,137	-18,307	-174,370	-183,520
Public debt charges	-3,005	-2,811	-33,722	-33,841
Budgetary balance (deficit/surplus)	-1,011	-445	11,975	13,675
<b>Non-budgetary transactions</b>	2,238	2,652	-4,822	-3,062
<b>Financial source/requirement</b>	1,227	2,207	7,153	10,613
<b>Net change in financing activities</b>	12,652	10,084	-6,331	-7,361
<b>Net change in cash balances</b>	13,879	12,291	822	3,252
<b>Cash balance at end of period</b>			17,982	21,210

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	March			April to March		
	2006	2007	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	9,338	9,020	-3.4	101,632	108,093	6.4
Corporate income tax	4,043	4,607	14.0	31,842	36,434	14.4
Other income tax	350	343	-2.0	4,671	5,485	17.4
Total income tax	13,731	13,970	1.7	138,145	150,012	8.6
Excise taxes and duties						
Goods and services tax	1,694	1,505	-11.2	33,027	29,690	-10.1
Customs import duties	336	295	-12.2	3,409	3,605	5.7
Sales and excise taxes	764	720	-5.8	9,390	9,932	5.8
Air Travellers Security Charge	35	30	-14.3	351	356	1.4
Total excise taxes and duties	2,829	2,550	-9.9	46,177	43,583	-5.6
Total tax revenues	16,560	16,520	-0.2	184,322	193,595	5.0
<b>Employment insurance premiums</b>	1,657	1,800	8.6	16,748	16,807	0.4
<b>Other revenues</b>	1,914	2,353	22.9	18,997	20,634	8.6
<b>Total budgetary revenues</b>	20,131	20,673	2.7	220,067	231,036	5.0

Note: Totals may not add due to rounding.

Table 3  
Budgetary expenses

	March		Change	April to March		Change
	2006	2007		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,512	2,604	3.7	29,192	30,530	4.6
Employment insurance benefits	1,283	1,274	-0.7	14,352	14,083	-1.9
Children's benefits	809	1,022	26.3	9,278	11,287	21.7
Total	4,604	4,900	6.4	52,822	55,900	5.8
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	19,000	20,140	6.0
Canada Social Transfer	685	708	3.4	8,225	8,500	3.3
Total	2,268	2,386	5.2	27,225	28,640	5.2
Fiscal transfers	796	761	-4.4	12,437	13,010	4.6
Canada's cities and communities	5	11	120.0	580	590	1.7
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-10	-443	n/a	-2,732	-3,177	16.3
Total	3,059	2,715	-11.2	37,510	39,713	5.9
Subsidies and other transfers						
Agriculture and Agri-Food	620	596	-3.9	2,658	3,012	13.3
Foreign Affairs and International Trade	889	1,105	24.3	3,073	3,804	23.8
Health	287	252	-12.2	1,920	1,986	3.4
Human Resources and Social Development	160	224	40.0	1,908	1,733	-9.2
Indian Affairs and Northern Development	544	482	-11.4	4,807	4,728	-1.6
Industry	205	128	-37.6	1,983	1,987	0.2
Other	1,146	1,064	-7.2	5,850	5,572	-4.8
Total	3,851	3,851	0.0	22,199	22,822	2.8
Total transfer payments	11,514	11,466	-0.4	112,531	118,435	5.2
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	0	0	n/a	1,098	1,114	1.5
Canada Mortgage and Housing Corporation	176	181	2.8	2,033	2,073	2.0
Other	333	285	-14.4	3,405	3,380	-0.7
Total	509	466	-8.4	6,536	6,567	0.5
Defence	1,633	1,456	-10.8	15,190	15,850	4.3
All other departments and agencies	4,481	4,919	9.8	40,113	42,668	6.4
Total other program expenses	6,623	6,841	3.3	61,839	65,085	5.2
<b>Total program expenses</b>	18,137	18,307	0.9	174,370	183,520	5.2
<b>Public debt charges</b>	3,005	2,811	-6.5	33,722	33,841	0.4
<b>Total budgetary expenses</b>	21,142	21,118	-0.1	208,092	217,361	4.5

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial source/requirement

	March		April to March	
	2006	2007	2005-06	2006-07
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-1,011	-445	11,975	13,675
<b>Non-budgetary transactions</b>				
Capital investing activities	-675	-766	-2,783	-2,962
Other investing activities	-265	-169	-2,920	-1,145
Pension and other accounts	534	376	171	4,684
Other activities				
Accounts payable, receivables, accruals and allowances	3,989	6,103	-3,304	-3,236
Foreign exchange activities	-1,566	-3,048	1,045	-3,352
Amortization of tangible capital assets	221	156	2,969	2,949
Total other activities	2,644	3,211	710	-3,639
<b>Total non-budgetary transactions</b>	2,238	2,652	-4,822	-3,062
<b>Net financial source/requirement</b>	1,227	2,207	7,153	10,613

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	March		April to March	
	2006	2007	2005-06	2006-07
	(\$ millions)			
<b>Net financial source/requirement</b>	1,227	2,207	7,153	10,613
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	674	308	-4,852	-3,913
Treasury bills	11,700	10,100	4,400	2,500
Canada Savings Bonds	-123	-176	-1,732	-2,259
Other	-67	-187	-290	-1,360
Total	12,184	10,045	-2,474	-5,032
Foreign currency borrowings	1,718	6	-2,202	-3,712
Total	13,902	10,051	-4,676	-8,744
Cross-currency swap revaluation	-1,265	-306	-1,336	1,168
Unamortized discounts on debt issues	30	167	-369	121
Obligations related to capital leases	-15	172	50	94
<b>Net change in financing activities</b>	12,652	10,084	-6,331	-7,361
<b>Change in cash balance</b>	13,879	12,291	822	3,252

Note: Totals may not add due to rounding.



Table 6

## Condensed statement of assets and liabilities

	March 31, 2006	March 31, 2007	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	101,432	98,729	-2,703
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	257,221	-3,913
Treasury bills	131,597	134,097	2,500
Canada Savings Bonds	17,342	15,083	-2,259
Other	3,102	1,742	-1,360
Subtotal	413,175	408,143	-5,032
Payable in foreign currencies	14,085	10,373	-3,712
Cross-currency swap revaluation account	-2,258	-1,090	1,168
Unamortized discounts and premiums on market debt	-6,780	-6,659	121
Obligations related to capital leases	2,927	3,021	94
Total unmaturred debt	421,149	413,788	-7,361
Pension and other accounts			
Public sector pensions	131,062	134,446	3,384
Other employee and veteran future benefits	43,369	44,989	1,620
Other pension and other accounts	5,493	5,173	-320
Total pension and other accounts	179,924	184,608	4,684
Total interest-bearing debt	601,073	598,396	-2,677
<b>Total liabilities</b>	702,505	697,125	-5,380
<b>Financial assets</b>			
Cash and accounts receivable	82,843	86,628	3,785
Foreign exchange accounts	40,827	44,179	3,352
Loans, investments and advances (net of allowances)	41,889	43,034	1,145
<b>Total financial assets</b>	165,559	173,841	8,282
<b>Net debt</b>	536,946	523,284	-13,662
<b>Non-financial assets</b>	55,447	55,460	13
<b>Federal debt (accumulated deficit)</b>	481,499	467,824	-13,675









# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### April 2007: budgetary surplus of \$2.7 billion

There was a budgetary surplus of \$2.7 billion in April 2007, up \$0.1 billion from the \$2.6-billion surplus in April 2006. Budgetary revenues rose \$2.0 billion, or 10.6 per cent, driven in large part by a \$1.0 billion, or 44.6 per cent, increase in corporate income tax revenues. Personal income tax revenues and other income tax revenues were also up, while goods and services tax (GST revenues) declined due to the July 1, 2006 rate reduction. Program expenses increased \$1.7 billion, or 12.3 per cent, reflecting an increase in transfer payments and departmental operating expenses. Public debt charges were up \$0.3 billion, due to an increase in the average effective interest rate on the stock of interest-bearing debt.

### May 2007: budgetary surplus of \$0.8 billion

There was a budgetary surplus of \$0.8 billion in May 2007, down from the \$1.0-billion surplus recorded in May 2006. Budgetary revenues were up \$0.4 billion, or 2.2 per cent. All revenue streams, with the exception of GST, were higher. Program expenses were up \$0.6 billion, or 4.3 per cent, while public debt charges were virtually unchanged.

### April and May 2007: budgetary surplus of \$3.5 billion

For the first two months of the 2007–08 fiscal year (April and May), the budgetary surplus is estimated at \$3.5 billion, down marginally from the \$3.6 billion surplus reported in the same period last year. Revenues increased \$2.4 billion, or 6.5 per cent, due in large part to strength in corporate income tax revenues. Program expenses were up \$2.3 billion, or 8.2 per cent, reflecting higher transfers and other program expenses. Public debt charges rose \$0.3 billion.

The results for the first two months of the fiscal year are not indicative of the outcome for the year as a whole. For example, the year-to-date results do not include the spending measures pertaining to 2007–08 that were announced in Budget 2007 but for which legislative authority had not been received by the end of May, including significant increases in funding for Equalization and the Canada Social Transfer. These measures will be reflected in the coming months. In addition, financial results can be volatile on a monthly basis due to variations in the timing of significant payments or receipts.

A quarterly update of the 2007–08 budgetary surplus projection will be provided in the June *Fiscal Monitor*, which will be published in late August.



# The Fiscal Monitor

## April and May 2007 budgetary results

Through the first two months of the 2007–08 fiscal year, there was a budgetary surplus of \$3.5 billion, down \$0.1 billion from the \$3.6-billion surplus reported during the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by \$2.4 billion, or 6.5 per cent, to \$39.7 billion, primarily reflecting strong gains in corporate income tax revenues.

- Personal income tax receipts rose \$0.8 billion, or 4.6 per cent, through April and May, driven by higher source deductions which are consistent with the gains in employment and wages and salaries over the period.
- Corporate income tax revenues were up \$1.4 billion, or 27.0 per cent, reflecting gains in profitability in 2006, and the ongoing strength in corporate profits this year. However, corporate income tax revenues can be volatile on a month-to-month basis as corporate year-ends are spread unevenly over the fiscal year, such that large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax receipts—withholdings from non-residents—rose 19.1 per cent relative to the same period last year, also reflecting the ongoing strength in corporate profitability. Other income tax revenues also can be volatile on a monthly basis, as they are determined in large part by corporate dividend payments.
- Excise taxes and duties were down \$0.7 billion, or 9.0 per cent, due to the \$0.8 billion decline in GST revenues which reflected the 1-percentage-point reduction in the GST rate effective July 1, 2006. Sales and excise taxes increased \$13 million.

Customs import duties rose \$102 million, and the Air Travellers Security Charge was up \$3 million over the period.

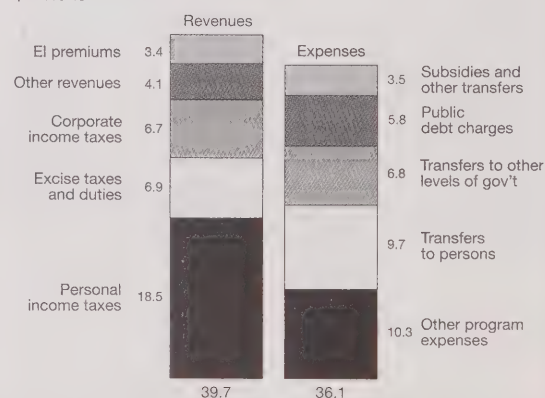
- Employment insurance (EI) premium revenues increased by \$0.2 billion, or 6.7 per cent, through April and May, reflecting improvements in employment and wages and salaries, which more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, return on investments, and foreign exchange revenues, increased by \$0.5 billion. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

Program expenses in the April to May 2007 period were \$30.3 billion, up \$2.3 billion, or 8.2 per cent, from the prior year, reflecting an increase in transfer payments and operating expenses of departments and agencies.

## Revenues and expenses

(April to May 2007)

\$ billions





Transfer payments increased \$1.2 billion, or 6.4 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose \$0.8 billion, or 8.8 per cent, on a year-over-year basis. Elderly benefits increased 4.3 per cent and EI benefit payments increased 6.5 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), were up \$0.4 billion compared to one year ago, reflecting transfers under the UCCB which began in July 2006.
- Major transfers to other levels of government, consisting of transfers in support of the Canada Health Transfer and Canada Social Transfer, fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.4 billion, or 6.0 per cent, due largely to increases in the Canada Health Transfer. The year-to-date results do not yet reflect a combined \$2.4 billion increase in funding for Equalization and the Canada Social Transfer announced in Budget 2007, enabling legislation for which did not receive Royal Assent until June.

- Subsidies and other transfers were up \$35 million, or 1.0 per cent, from the prior year.

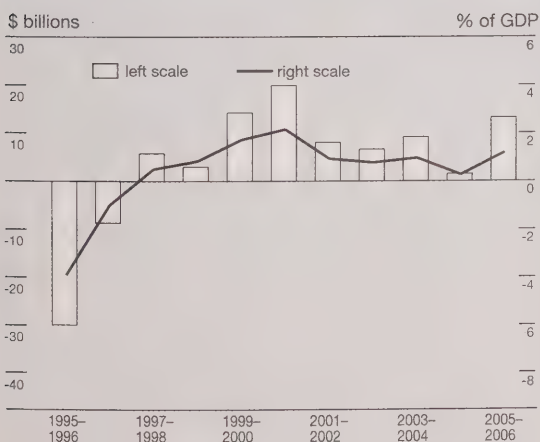
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the government's liabilities. On a year-over-year basis, these expenses increased \$1.1 billion, or 11.7 per cent.

Public debt charges increased by \$0.3 billion, or 4.7 per cent, in the first two months of 2007–08, due to an increase in the average effective interest rate on the stock of interest-bearing debt.

## Financial source of \$8.5 billion for April to May 2007

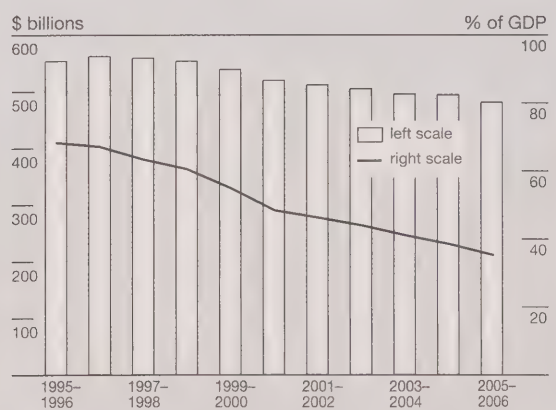
The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$3.5 billion and a source of \$5.0 billion from non-budgetary transactions, there was a net financial source of \$8.5 billion in the April to May 2007 period compared to a net financial source of \$2.8 billion from the same period last year.

## **Net financing activities down \$19.1 billion**

The government used this financial source of \$8.5 billion and a reduction in its cash balances of \$10.6 billion to reduce its market debt by \$19.1 billion by the end of May 2007. The reduction in market debt was achieved largely through a reduction of Treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at \$10.6 billion.

Table 1

## Summary statement of transactions

	April		May		April-May	
	2006	2007	2006	2007	2006-07	2007-08
(\$ millions)						
<b>Budgetary transactions</b>						
Revenues	18,955	20,972	18,270	18,680	37,225	39,652
Expenses						
Program expenses	-13,605	-15,278	-14,419	-15,035	-28,024	-30,313
Public debt charges	-2,714	-2,976	-2,857	-2,855	-5,571	-5,831
Budgetary balance (deficit/surplus)	2,636	2,718	994	790	3,630	3,508
<b>Non-budgetary transactions</b>	-3,834	75	3,033	4,927	-801	5,002
<b>Financial source/requirement</b>	-1,198	2,793	4,027	5,717	2,829	8,510
<b>Net change in financing activities</b>	-12,212	-17,161	2,224	-1,944	-9,988	-19,105
<b>Net change in cash balances</b>	-13,410	-14,368	6,251	3,773	-7,159	-10,595
<b>Cash balance at end of period</b>					10,802	10,609

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	April		May		April-May		Change
	2006	2007	2006	2007	2006-07	2007-08	
(\$ millions)							(%)
<b>Tax revenues</b>							
Income taxes							
Personal income tax	9,511	10,099	8,212	8,439	17,723	18,538	4.6
Corporate income tax	2,333	3,374	2,941	3,324	5,274	6,698	27.0
Other income tax revenue	330	426	336	367	666	793	19.1
Total income tax	12,174	13,899	11,489	12,130	23,663	26,029	10.0
Excise taxes and duties							
Goods and services tax	2,855	2,736	2,693	2,011	5,548	4,747	-14.4
Customs import duties	295	322	223	298	518	620	19.7
Sales and excise taxes	761	762	723	735	1,484	1,497	0.9
Air Travellers Security Charge	35	37	31	32	66	69	4.5
Total excise taxes and duties	3,946	3,857	3,670	3,076	7,616	6,933	-9.0
Total tax revenues	16,120	17,756	15,159	15,206	31,279	32,962	5.4
<b>Employment insurance premiums</b>	1,636	1,766	1,581	1,666	3,217	3,432	6.7
<b>Other revenues</b>	1,199	1,450	1,530	1,808	2,729	3,258	19.4
<b>Total budgetary revenues</b>	18,955	20,972	18,270	18,680	37,225	39,652	6.5

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 3

## Budgetary expenses

	April		May		April-May		Change
	2006	2007	2006	2007	2006-07	2007-08	(%)
	(\$ millions)						
<b>Transfer payments</b>							
Transfers to persons							
Elderly benefits	2,506	2,607	2,506	2,622	5,012	5,229	4.3
Employment insurance benefits	1,251	1,378	1,052	1,075	2,303	2,453	6.5
Children's benefits	810	1,011	798	1,019	1,608	2,030	26.2
Total	4,567	4,996	4,356	4,716	8,923	9,712	8.8
Transfers to other levels of government							
Support for health and other social programs							
Canada Health Transfer	1,678	1,779	1,679	1,779	3,357	3,558	6.0
Canada Social Transfer	708	733	709	734	1,417	1,467	3.5
Total	2,386	2,512	2,388	2,513	4,774	5,025	5.3
Fiscal transfers	927	970	1,272	1,316	2,199	2,286	4.0
Canada's cities and communities	0	0	0	2	0	2	n/a
Alternative Payments for Standing Programs	-268	-245	-269	-246	-537	-491	-8.6
Total	3,045	3,237	3,391	3,585	6,436	6,822	6.0
Subsidies and other transfers							
Agriculture and Agri-Food	74	76	119	18	193	94	-51.3
Foreign Affairs and International Trade	26	242	409	222	435	464	6.7
Health	108	129	218	252	326	381	16.9
Human Resources and Social Development	95	91	294	249	389	340	-12.6
Indian Affairs and Northern Development	658	668	317	295	975	963	-1.2
Industry	108	136	72	76	180	212	17.8
Other	599	641	359	396	958	1,037	8.2
Total	1,668	1,983	1,788	1,508	3,456	3,491	1.0
Total transfer payments	9,280	10,216	9,535	9,809	18,815	20,025	6.4
<b>Other program expenses</b>							
Crown corporation expenses							
Canadian Broadcasting Corporation	215	276	115	64	330	340	3.0
Canada Mortgage and Housing Corporation	190	130	190	157	380	287	-24.5
Other	316	404	333	283	649	687	5.9
Total	721	810	638	504	1,359	1,314	-3.3
Defence	1,034	1,150	1,119	1,138	2,153	2,288	6.3
All other departments and agencies	2,570	3,102	3,127	3,584	5,697	6,686	17.4
Total other program expenses	4,325	5,062	4,884	5,226	9,209	10,288	11.7
<b>Total program expenses</b>	13,605	15,278	14,419	15,035	28,024	30,313	8.2
<b>Public debt charges</b>	2,714	2,976	2,857	2,855	5,571	5,831	4.7
<b>Total budgetary expenses</b>	16,319	18,254	17,276	17,890	33,595	36,144	7.6

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	April		May		April-May	
	2006	2007	2006	2007	2006-07	2007-08
	(\$ millions)					
<b>Budgetary balance (deficit/surplus)</b>	2,636	2,718	994	790	3,630	3,508
<b>Non-budgetary transactions</b>						
Capital investing activities	-25	-39	37	35	12	-4
Other investing activities	555	612	-35	-102	520	510
Pension and other accounts	222	357	-398	424	-176	781
Other activities						
Accounts payable, receivables, accruals and allowances	-5,906	-1,839	2,805	3,121	-3,101	1,282
Foreign exchange activities	1,058	703	412	1,176	1,470	1,879
Amortization of tangible capital assets	262	281	212	273	474	554
Total other activities	-4,586	-855	3,429	4,570	-1,157	3,715
<b>Total non-budgetary transactions</b>	-3,834	75	3,033	4,927	-801	5,002
<b>Net financial source/requirement</b>	-1,198	2,793	4,027	5,717	2,829	8,510

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	April		May		April-May	
	2006	2007	2006	2007	2006-07	2007-08
	(\$ millions)					
<b>Net financial source/requirement</b>	-1,198	2,793	4,027	5,717	2,829	8,510
<b>Net increase (+)/decrease (-) in financing activities</b>						
Unmatured debt transactions						
Canadian currency borrowings						
Marketable bonds	303	1,546	758	3,270	1,061	4,816
Treasury bills	-10,500	-17,100	2,800	-3,500	-7,700	-20,600
Canada Savings Bonds	-83	-98	-43	-55	-126	-153
Other	-61	-137	-284	-3	-345	-140
Total	-10,341	-15,789	3,231	-288	-7,110	-16,077
Foreign currency borrowings	-1,828	-525	-948	-264	-2,776	-789
Total	-12,169	-16,314	2,283	-552	-9,886	-16,866
Cross-currency swap revaluation	-2	-975	0	-1,365	-2	-2,340
Unamortized discounts on debt issues	-27	132	-58	-30	-85	102
Obligations related to capital leases	-14	-4	-1	3	-15	-1
<b>Net change in financing activities</b>	-12,212	-17,161	2,224	-1,944	-9,988	-19,105
<b>Change in cash balance</b>	-13,410	-14,368	6,251	3,773	-7,159	-10,595

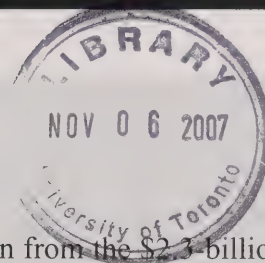
Note: Totals may not add due to rounding.





# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### June 2007: budgetary surplus of \$2.8 billion

There was a budgetary surplus of \$2.8 billion in June 2007, up \$0.6 billion from the \$2.3 billion surplus recorded in June 2006. Budgetary revenues were up \$1.5 billion, or 7.6 per cent. All revenue streams, with the exception of customs import duties and sales and excise taxes, were higher. Program expenses increased by \$0.9 billion, or 6.4 per cent, largely due to growth in transfers to other levels of government and an increase in departmental operating expenses. Public debt charges were down \$47 million.

### April to June 2007: budgetary surplus of \$6.4 billion

For the first three months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$6.4 billion, up \$0.5 billion from the \$5.9-billion surplus reported in the same period of 2006–07. Budgetary revenues increased \$3.9 billion, or 6.9 per cent, driven by gains in income tax revenues and non-tax revenues. Program expenses rose by \$3.2 billion, or 7.6 per cent, reflecting an increase in transfer payments and operating expenses of departments and agencies, including National Defence. Public debt charges increased by \$0.2 billion, or 2.5 per cent, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

### Quarterly update of 2007–08 surplus projection: surplus expected to come in higher than Budget 2007 projection of \$3 billion

The outlook for 2007–08 has been influenced by a number of developments since the Budget 2007 projection in March.

- Economic performance has been stronger than expected. Private sector forecasters have revised up their outlook for nominal gross domestic product (GDP) growth in 2007 to 5.2 per cent from 3.9 per cent at the time of Budget 2007. This would leave the level of nominal GDP, the broadest measure of the tax base, approximately \$20 billion higher in both 2007 and 2008 than projected in the budget.
- The year-to-date financial results also suggest that revenues will be higher than had been anticipated in March.

Taken together, these developments indicate that the budgetary surplus for 2007–08 will exceed the Budget 2007 projection of \$3 billion. This quarterly update is qualitative rather than quantitative, reflecting in large part the fact that only three months of fiscal data are available for the 2007–08 fiscal year, which are not sufficient to provide an update to the Budget 2007 projection with a reasonable degree of confidence. A comprehensive update of the fiscal outlook for this year and beyond will be provided in the fall Economic and Fiscal Update.



# The Fiscal Monitor

## June 2007

There was a budgetary surplus of \$2.8 billion in June 2007, up \$0.6 billion from June 2006.

Budgetary revenues increased by \$1.5 billion, or 7.6 per cent, to \$20.7 billion.

- Personal income tax revenues were up \$0.7 billion, or 7.2 per cent, driven by higher source deductions, consistent with the gains in employment and wages and salaries.
- Corporate income tax revenues rose \$0.1 billion, or 4.6 per cent, in June, following 13.0 per cent growth in May. This volatility in corporate income tax receipts is not unusual, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—increased by 11.2 per cent.
- Excise taxes and duties were up \$0.1 billion, or 1.8 per cent. A \$0.1-billion, or 4.2-per-cent, rise in goods and services tax (GST) revenues was partly offset by a \$47-million, or 5.6-per-cent, decline in sales and excise taxes.
- Employment insurance (EI) premium revenues edged up 1.4 per cent, as improvements in employment and wages and salaries more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were up \$0.5 billion, or 33.1 per cent. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

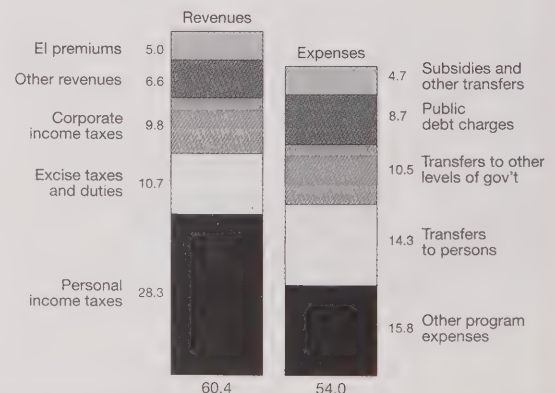
Program expenses in June 2007 were \$15.0 billion, up \$0.9 billion, or 6.4 per cent, from June 2006, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments were up \$0.4 billion, or 4.8 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were up \$0.4 billion, or 8.8 per cent. Elderly benefits increased 4.5 per cent and EI benefits increased 4.9 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), were up \$0.2 billion, or 27.0 per cent, reflecting transfers under the UCCB, which began in July 2006.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.4 billion, or 13.7 per cent. This increase is largely attributable to a \$250-million transfer to provinces and territories to support the

**Revenues and expenses**  
(April to June 2007)

\$ billions



creation of new child care spaces, the enabling legislation for which received Royal Assent in June.

- Subsidies and other transfers decreased by \$0.4 billion, or 23.8 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased \$0.5 billion, or 9.3 per cent, with higher transfers to Crown corporations responsible for roughly half of this increase.

Public debt charges decreased by \$47 million.

## April to June 2007

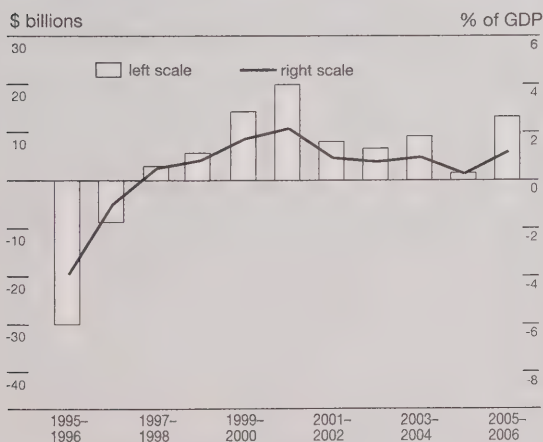
Through the first three months of the 2007–08 fiscal year, there was a budgetary surplus of \$6.4 billion, up \$0.5 billion from the \$5.9-billion surplus reported during the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by \$3.9 billion, or 6.9 per cent, to \$60.4 billion.

- Personal income tax revenues rose \$1.5 billion, or 5.5 per cent, reflecting growth in employment and wages and salaries over the period.

- Corporate income tax revenues were up \$1.6 billion, or 18.9 per cent, driven by gains in profitability in 2006 and the ongoing strength in corporate profits this year.
- Other income tax revenues rose 16.4 per cent, also reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties were down \$0.6 billion, or 5.4 per cent, largely due to a \$0.7-billion decline in GST revenues. The drop in GST revenues reflects the 1-percentage-point reduction in the GST rate effective July 1, 2006. Sales and excise taxes fell by \$34 million, while customs import duties were up \$101 million and revenues from the Air Travellers Security Charge were up \$10 million over the period.
- EI premium revenues increased by \$0.2 billion, or 5.0 per cent, reflecting improvements in employment and wages and salaries, which more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues increased \$1.1 billion, or 24.5 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



# The Fiscal Monitor

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Program expenses in the April to June 2007 period were \$45.3 billion, up \$3.2 billion, or 7.6 per cent, from the prior year, reflecting an increase in transfer payments and operating expenses of departments and agencies.

Transfer payments increased \$1.6 billion, or 5.9 per cent.

- Transfers to persons rose \$1.2 billion, or 8.8 per cent. Elderly benefits increased 4.4 per cent and EI benefits increased 6.1 per cent. Children's benefits were up \$0.6 billion, reflecting transfers under the UCCB, which began in July 2006.
- Transfers to other levels of government were up \$0.8 billion, or 8.6 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization, as well as a \$0.3-billion lump-sum transfer for child care spaces.
- Subsidies and other transfers were down \$0.3 billion, or 6.8 per cent.

Other program expenses increased \$1.6 billion, or 10.9 per cent.

Public debt charges increased by \$0.2 billion, or 2.5 per cent, due to an increase in the average effective interest rate on the stock of interest-bearing debt.

## **Financial source of \$4.9 billion for April to June 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the

financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$6.4 billion and a requirement of \$1.4 billion from non-budgetary transactions, there was a net financial source of \$4.9 billion in the April to June 2007 period, compared to a net financial source of \$0.3 billion in the same period last year.

## **Net financing activities down \$21.4 billion**

The Government used this net financial source of \$4.9 billion and a reduction in its cash balances of \$16.4 billion to reduce its market debt by \$21.4 billion by the end of June 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June stood at \$4.8 billion.

## Quarterly update of the fiscal outlook for 2007–08

This section provides a qualitative update of the fiscal outlook for 2007–08. A comprehensive update of the fiscal outlook will be provided in the fall Economic and Fiscal Update, which will incorporate the final audited results for 2006–07 and the most recent economic outlook by private sector economists.

### Overview

The budgetary surplus for 2007–08 is now expected to come in higher than the Budget 2007 projection of \$3 billion. The improved outlook stems from stronger-than-expected economic performance, as well as higher-than-anticipated revenues as suggested by year-to-date financial results. Program expenses are expected to be largely unchanged from the Budget 2007 outlook.

### Economic outlook

Based on the June survey of private sector economic forecasters, the outlook for real GDP growth has been revised up to 2.5 per cent in 2007 from 2.3 per cent in Budget 2007. For 2008, forecasters expect real GDP growth of 2.7 per cent, lower than the 2.9 per cent expected at the time of the budget. Forecasters have significantly revised up their expectations for GDP inflation in 2007 to 2.7 per cent from 1.5 per cent in Budget 2007. The outlook for GDP inflation in 2008 has been revised up as well to 2.2 per cent from 2.0 per cent in Budget 2007. As a result, the outlook for nominal GDP growth in 2007 has been revised up significantly to 5.2 per cent from 3.9 per cent projected in Budget 2007, while nominal GDP growth for 2008 remains unchanged at 5.0 per cent. This would leave the level of nominal GDP approximately \$20 billion higher in both 2007 and 2008 than projected in the budget. A new survey of private sector forecasters will be conducted in September, after the release of the second-quarter National Accounts, and the revised economic outlook will be used to update the fiscal projections to be presented in the fall Economic and Fiscal Update.

### Fiscal outlook

The budgetary surplus for 2007–08 is now expected to come in higher than the Budget 2007 projection of \$3 billion. The higher outlook reflects in part a significant upward revision to the economic outlook for 2007 along with stronger-than-expected economic activity last year. As well, year-to-date financial results suggest that revenues in 2007–08 will be higher than anticipated at the time of Budget 2007.

The degree to which the actual surplus for 2007–08 exceeds the Budget 2007 projection will depend on economic developments through the remainder of this fiscal year and the strength of tax revenues. As well, the Government is carefully managing spending to ensure that all government programs are effective and efficient. A comprehensive update of the fiscal outlook for this year and beyond will be provided in the fall Economic and Fiscal Update.

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	June		April to June	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	19,254	20,708	56,479	60,360
Expenses				
Program expenses	-14,083	-14,990	-42,107	-45,303
Public debt charges	-2,916	-2,869	-8,487	-8,700
Budgetary balance (deficit/surplus)	2,255	2,849	5,885	6,357
<b>Non-budgetary transactions</b>	-4,762	-6,419	-5,563	-1,417
<b>Financial source/requirement</b>	-2,507	-3,570	322	4,940
<b>Net change in financing activities</b>	-5,502	-2,263	-15,490	-21,368
<b>Net change in cash balances</b>	-8,009	-5,833	-15,168	-16,428
<b>Cash balance at end of period</b>			2,794	4,779

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	June			April to June		
	2006	2007	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	9,104	9,763	7.2	26,827	28,301	5.5
Corporate income tax	2,975	3,111	4.6	8,249	9,809	18.9
Other income tax	340	378	11.2	1,006	1,171	16.4
Total income tax	12,419	13,252	6.7	36,082	39,281	8.9
Excise taxes and duties						
Goods and services tax	2,552	2,659	4.2	8,100	7,406	-8.6
Customs import duties	289	288	-0.3	807	908	12.5
Sales and excise taxes	835	788	-5.6	2,319	2,285	-1.5
Air Travellers Security Charge	30	37	23.3	96	106	10.4
Total excise taxes and duties	3,706	3,772	1.8	11,322	10,705	-5.4
Total tax revenues	16,125	17,024	5.6	47,404	49,986	5.4
<b>Employment insurance premiums</b>	1,520	1,542	1.4	4,737	4,974	5.0
<b>Other revenues</b>	1,609	2,142	33.1	4,338	5,400	24.5
<b>Total budgetary revenues</b>	19,254	20,708	7.6	56,479	60,360	6.9

Note: Totals may not add due to rounding.



Table 3

## Budgetary expenses

	June		Change	April to June		Change
	2006	2007		2006-07	2007-08	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,518	2,632	4.5	7,530	7,861	4.4
Employment insurance benefits	935	981	4.9	3,238	3,434	6.1
Children's benefits	784	996	27.0	2,392	3,026	26.5
Total	4,237	4,609	8.8	13,160	14,321	8.8
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,779	6.0	5,035	5,337	6.0
Canada Social Transfer	708	983	38.8	2,125	2,450	15.3
Total	2,386	2,762	15.8	7,160	7,787	8.8
Fiscal transfers	1,080	1,119	3.6	3,279	3,405	3.8
Canada's cities and communities	0	0	n/a	0	2	n/a
Alternative Payments for Standing Programs	-268	-245	-8.6	-805	-736	-8.6
Total	3,198	3,636	13.7	9,634	10,458	8.6
Subsidies and other transfers						
Agriculture and Agri-Food	28	135	382.1	221	229	3.6
Foreign Affairs and International Trade	94	132	40.4	529	596	12.7
Health	105	111	5.7	431	492	14.2
Human Resources and Social Development	110	176	60.0	499	516	3.4
Indian Affairs and Northern Development	318	368	15.7	1,293	1,331	2.9
Industry	171	142	-17.0	351	354	0.9
Other	750	137	-81.7	1,708	1,174	-31.3
Total	1,576	1,201	-23.8	5,032	4,692	-6.8
Total transfer payments	9,011	9,446	4.8	27,826	29,471	5.9
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	85	120	41.2	415	460	10.8
Canada Mortgage and Housing Corporation	88	167	89.8	468	454	-3.0
Other	266	383	44.0	915	1,070	16.9
Total	439	670	52.6	1,798	1,984	10.3
Defence	1,324	1,389	4.9	3,477	3,677	5.8
All other departments and agencies	3,309	3,485	5.3	9,006	10,171	12.9
Total other program expenses	5,072	5,544	9.3	14,281	15,832	10.9
<b>Total program expenses</b>	14,083	14,990	6.4	42,107	45,303	7.6
<b>Public debt charges</b>	2,916	2,869	-1.6	8,487	8,700	2.5
<b>Total budgetary expenses</b>	16,999	17,859	5.1	50,594	54,003	6.7

Note: Totals may not add due to rounding.

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Table 4

## The budgetary balance and financial source/requirement

	June		April to June	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	2,255	2,849	5,885	6,357
<b>Non-budgetary transactions</b>				
Capital investing activities	-124	-125	-112	-129
Other investing activities	-68	-417	452	93
Pension and other accounts	1,142	479	966	1,260
Other activities				
Accounts payable, receivables, accruals and allowances	-5,541	-7,604	-8,642	-6,322
Foreign exchange activities	-392	975	1,078	2,854
Amortization of tangible capital assets	221	273	695	827
Total other activities	-5,712	-6,356	-6,869	-2,641
<b>Total non-budgetary transactions</b>	-4,762	-6,419	-5,563	-1,417
<b>Net financial source/requirement</b>	-2,507	-3,570	322	4,940

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	June		April to June	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Net financial source/requirement</b>	-2,507	-3,570	322	4,940
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-2,960	-8,026	-1,899	-3,210
Treasury bills	-1,900	5,700	-9,600	-14,900
Canada Savings Bonds	-92	-110	-218	-263
Other	-342	-253	-687	-393
Total	-5,294	-2,689	-12,404	-18,766
Foreign currency borrowings	-47	212	-2,823	-577
Total	-5,341	-2,477	-15,227	-19,343
Cross-currency swap revaluation	0	281	-2	-2,059
Unamortized discounts on debt issues	-142	-46	-227	56
Obligations related to capital leases	-19	-21	-34	-22
<b>Net change in financing activities</b>	-5,502	-2,263	-15,490	-21,368
<b>Change in cash balance</b>	-8,009	-5,833	-15,168	-16,428

Note: Totals may not add due to rounding.

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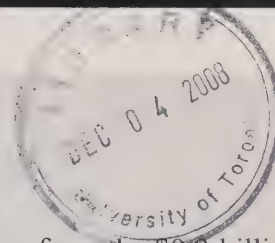
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August 2007

# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### July 2007: budgetary surplus of \$1.4 billion

There was a budgetary surplus of \$1.4 billion in July 2007, up \$0.6 billion from the \$0.8-billion surplus recorded in July 2006. Budgetary revenues were up \$1.0 billion or 5.2 per cent from July 2006, reflecting strong gains in corporate income tax revenues. Program expenses increased by \$0.5 billion, or 3.3 per cent, due to higher transfer payments and departmental operating expenses. Public debt charges were \$0.1 billion lower.

### April to July 2007: budgetary surplus of \$7.8 billion

For the first four months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$7.8 billion, up \$1.0 billion from the \$6.7-billion surplus reported in the same period last year. One-third of the surplus reflects growth in corporate income tax collections (up 25 per cent through July), which are highly variable on a monthly basis. Budgetary revenues increased by \$4.9 billion or 6.5 per cent over last year, driven by both higher income tax revenues and non-tax revenues. Program expenses rose \$3.7 billion, or 6.4 per cent, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence. Public debt charges increased by \$0.1 billion, or 1.2 per cent.

## July 2007

There was a budgetary surplus of \$1.4 billion in July 2007, up \$0.6 billion from July 2006.

Budgetary revenues increased by \$1.0 billion, or 5.2 per cent, to \$20.2 billion.

- Personal income tax revenues declined by \$0.2 billion, or 2.1 per cent, reflecting one less large processing day in July 2007 than in July 2006.
- Corporate income tax revenues rose \$1.0 billion, or 50.4 per cent. A significant portion of this strength reflects a large prior-year refund paid in July 2006, which lowered net receipts in that month, consequently boosting the growth in net receipts in July of this year.

- Other income tax revenues—withholdings from non-residents—increased by 2.3 per cent.
- Excise taxes and duties were up \$0.4 billion, or 9.2 per cent, reflecting a \$0.2-billion gain in both goods and services tax (GST) and sales and excise tax revenues.
- Employment Insurance (EI) premium revenues decreased by 3.6 per cent, reflecting the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.





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- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were down \$0.1 billion, or 6.3 per cent. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

Program expenses in July 2007 were \$15.9 billion, up \$0.5 billion, or 3.3 per cent, from July 2006, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments were up \$0.3 billion, or 2.9 per cent.

- Transfers to persons, consisting of elderly, EI and children's benefits, were up \$0.2 billion, or 4.2 per cent. Elderly benefits increased 4.3 per cent while EI benefits rose 5.2 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were up 2.8 per cent.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities and Alternative Payments for Standing Programs, were virtually unchanged.
- Subsidies and other transfers increased by \$0.1 billion, or 8.4 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased \$0.2 billion, or 4.0 per cent.

Public debt charges decreased by \$78 million.

## April to July 2007

Through the first four months of the 2007–08 fiscal year, there was a budgetary surplus of \$7.8 billion, up \$1.0 billion from the \$6.7-billion surplus reported during the same period of 2006–07.

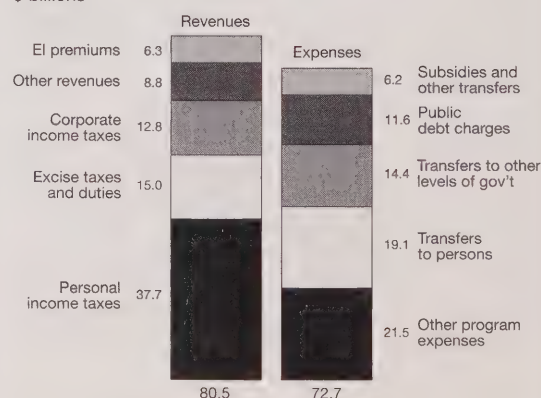
On a year-over-year basis, budgetary revenues increased by \$4.9 billion, or 6.5 per cent, to \$80.5 billion.

- Personal income tax revenues rose \$1.3 billion, or 3.5 per cent, reflecting growth in employment and wages and salaries.
- Corporate income tax revenues were up \$2.6 billion, or 25.0 per cent. However, corporate tax receipts are highly variable on a monthly basis, and it is expected that this strength will dissipate as the fiscal year progresses.

## Revenues and expenses

(April to July 2007)

\$ billions



- Other income tax revenues rose 12.2 per cent, also reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties were down \$0.3 billion, or 1.7 per cent, due to a \$0.5-billion decline in GST revenues. The drop in GST revenues reflects the 1-percentage-point reduction in the GST rate effective July 1, 2006. Sales and excise taxes rose \$151 million, customs import duties increased \$116 million and revenues from the Air Travellers Security Charge were up \$9 million.
- EI premium revenues increased by \$0.2 billion, or 3.1 per cent, reflecting growth in employment and wages and salaries, which more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues increased \$0.9 billion, or 15.2 per cent.

Program expenses in the April to July 2007 period were \$61.2 billion, up \$3.7 billion, or 6.4 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

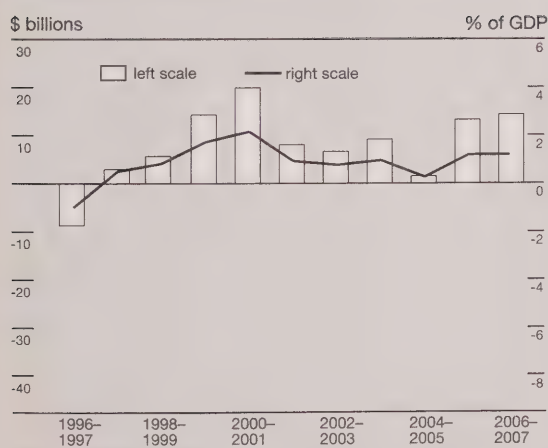
Transfer payments increased \$1.9 billion, or 5.1 per cent.

- Transfers to persons rose \$1.4 billion, or 7.6 per cent. Elderly benefits increased 4.4 per cent while EI benefits rose 5.8 per cent. Children's benefits were up \$0.7 billion, reflecting transfers under the UCCB, which began in July 2006.
- Transfers to other levels of government were up \$0.8 billion, or 5.9 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were down \$0.2 billion, or 3.4 per cent.

Other program expenses increased by \$1.8 billion, or 9.0 per cent.

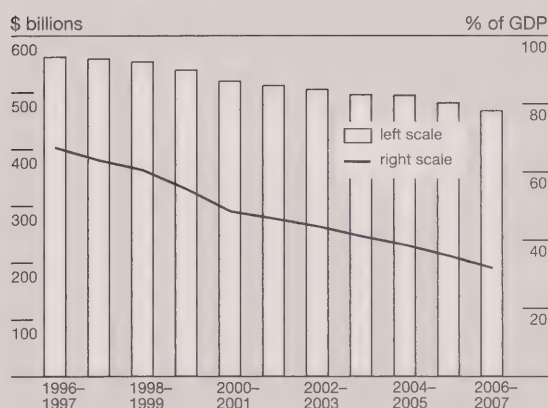
Public debt charges increased by \$0.1 billion, or 1.2 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

## **Financial source of \$6.8 billion for April to July 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out.

This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$7.8 billion and a requirement of \$1.0 billion from non-budgetary transactions, there was a net financial source of \$6.8 billion in the April to July 2007 period, compared to a net financial source of \$2.9 billion in the same period last year.

## **Net financing activities down \$24.6 billion**

The Government used this net financial source of \$6.8 billion and a reduction in its cash balances of \$17.9 billion to reduce its market debt by \$24.6 billion by the end of July 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at \$3.4 billion.



Table 1

## Summary statement of transactions

	July		April to July	
	2006	2007	2006-07	2007-08
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	19,151	20,151	75,630	80,511
Expenses				
Program expenses	-15,380	-15,881	-57,487	-61,184
Public debt charges	-2,938	-2,860	-11,425	-11,560
Budgetary balance (deficit/surplus)	833	1,410	6,718	7,767
<b>Non-budgetary transactions</b>	1,781	410	-3,782	-1,007
<b>Financial source/requirement</b>	2,614	1,820	2,936	6,760
<b>Net change in financing activities</b>	-1,323	-3,246	-16,813	-24,614
<b>Net change in cash balances</b>	1,291	-1,426	-13,877	-17,854
<b>Cash balance at end of period</b>			4,085	3,356

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	July			April to July		
	2006	2007	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	9,590	9,389	-2.1	36,417	37,690	3.5
Corporate income tax	1,990	2,992	50.4	10,239	12,801	25.0
Other income tax	430	440	2.3	1,436	1,611	12.2
Total income tax	12,010	12,821	6.8	48,092	52,102	8.3
Excise taxes and duties						
Goods and services tax	2,765	2,923	5.7	10,865	10,329	-4.9
Customs import duties	315	330	4.8	1,122	1,238	10.3
Sales and excise taxes	787	972	23.5	3,106	3,257	4.9
Air Travellers Security Charge	31	30	-3.2	127	136	7.1
Total excise taxes and duties	3,898	4,255	9.2	15,220	14,960	-1.7
Total tax revenues	15,908	17,076	7.3	63,312	67,062	5.9
<b>Employment Insurance premiums</b>	1,365	1,316	-3.6	6,102	6,290	3.1
<b>Other revenues</b>	1,878	1,759	-6.3	6,216	7,159	15.2
<b>Total budgetary revenues</b>	19,151	20,151	5.2	75,630	80,511	6.5

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	July		Change	April to July		Change
	2006	2007		2006-07	2007-08	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,493	2,600	4.3	10,023	10,461	4.4
Employment Insurance benefits	1,087	1,143	5.2	4,325	4,577	5.8
Children's benefits	1,015	1,043	2.8	3,407	4,069	19.4
Total	4,595	4,786	4.2	17,755	19,107	7.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,779	6.0	6,713	7,116	6.0
Canada Social Transfer	708	733	3.5	2,833	3,183	12.4
Total	2,386	2,512	5.3	9,546	10,299	7.9
Fiscal transfers	1,143	1,281	12.1	4,422	4,686	6.0
Canada's cities and communities	0	384	n/a	0	386	n/a
Early learning and child care	650	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-239	-262	9.6	-1,044	-998	-4.4
Total	3,940	3,915	-0.6	13,574	14,373	5.9
Subsidies and other transfers						
Agriculture and Agri-Food	89	78	-12.4	310	307	-1.0
Foreign Affairs and International Trade	178	19	-89.3	707	615	-13.0
Health	224	292	30.4	655	784	19.7
Human Resources and Social Development	97	67	-30.9	596	583	-2.2
Indian Affairs and Northern Development	356	348	-2.2	1,649	1,679	1.8
Industry	172	204	18.6	523	558	6.7
Other	308	536	74.0	2,016	1,710	-15.2
Total	1,424	1,544	8.4	6,456	6,236	-3.4
Total transfer payments	9,959	10,245	2.9	37,785	39,716	5.1
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	62	100	61.3	477	560	17.4
Canada Mortgage and Housing Corporation	172	162	-5.8	640	616	-3.8
Other	303	283	-6.6	1,218	1,353	11.1
Total	537	545	1.5	2,335	2,529	8.3
Defence	1,354	1,443	6.6	4,831	5,120	6.0
All other departments and agencies	3,530	3,648	3.3	12,536	13,819	10.2
Total other program expenses	5,421	5,636	4.0	19,702	21,468	9.0
<b>Total program expenses</b>	15,380	15,881	3.3	57,487	61,184	6.4
<b>Public debt charges</b>	2,938	2,860	-2.7	11,425	11,560	1.2
<b>Total budgetary expenses</b>	18,318	18,741	2.3	68,912	72,744	5.6

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	July		April to July	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	833	1,410	6,718	7,767
<b>Non-budgetary transactions</b>				
Capital investing activities	-187	-774	-299	-903
Other investing activities	11	47	463	140
Pension and other accounts	-842	373	124	1,633
Other activities				
Accounts payable, receivables, accruals and allowances	2,980	1,234	-5,662	-5,088
Foreign exchange activities	-431	-742	647	2,112
Amortization of tangible capital assets	250	272	945	1,099
Total other activities	2,799	764	-4,070	-1,877
<b>Total non-budgetary transactions</b>	1,781	410	-3,782	-1,007
<b>Net financial source/requirement</b>	2,614	1,820	2,936	6,760

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	July		April to July	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Net financial source/requirement</b>	2,614	1,820	2,936	6,760
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	468	710	-1,431	-2,500
Treasury bills	-1,500	-4,200	-11,100	-19,100
Canada Savings Bonds	-84	-178	-302	-441
Other	-223	-105	-910	-498
Total	-1,339	-3,773	-13,743	-22,539
Foreign currency borrowings	-86	179	-2,909	-398
Total	-1,425	-3,594	-16,652	-22,937
Cross-currency swap revaluation	2	261	0	-1,798
Unamortized discounts on debt issues	106	111	-121	167
Obligations related to capital leases	-6	-24	-40	-46
<b>Net change in financing activities</b>	-1,323	-3,246	-16,813	-24,614
<b>Change in cash balance</b>	1,291	-1,426	-13,877	-17,854

Note: Totals may not add due to rounding.



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September 2007

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### August 2007: budgetary surplus of \$0.9 billion

There was a budgetary surplus of \$0.9 billion in August 2007, up \$0.4 billion from the \$0.5-billion surplus recorded in August 2006. Budgetary revenues were up \$1.0 billion, or 5.9 per cent, reflecting strong gains in corporate income tax, goods and services tax (GST) and non-tax revenues. Program expenses increased by \$0.7 billion, or 5.1 per cent, due to higher transfer payments and departmental operating expenses. Public debt charges were \$0.1 billion lower.

### April to August 2007: budgetary surplus of \$8.7 billion

For the first five months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$8.7 billion, up \$1.5 billion from the \$7.2-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by \$5.9 billion, or 6.3 per cent, driven by both higher income tax revenues and non-tax revenues. Program expenses rose by \$4.4 billion, or 6.2 per cent, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence. Public debt charges were virtually unchanged.



### August 2007

There was a budgetary surplus of \$0.9 billion in August 2007, up \$0.4 billion from August 2006.

Budgetary revenues increased by \$1.0 billion, or 5.9 per cent, to \$18.6 billion.

- Personal income tax revenues increased by \$0.2 billion, or 2.1 per cent. Starting this month, the adjustments made to cash-based personal income tax receipts—to put these on an accrual basis—are being revised. To ensure comparability, these revisions have been made to the current and prior-year revenue estimates. The change in methodology has raised personal income

tax revenues and the year-to-date surplus by \$0.4 billion in August 2007 and by \$0.5 billion in August 2006. The adjustment in August accounts for the first five months of the fiscal year.

- Corporate income tax revenues rose \$0.3 billion, or 13.4 per cent, down from the 25.0-per-cent gain recorded through July.
- Other income tax revenues—withholdings from non-residents—increased by \$0.1 billion, or 21.7 per cent.
- Excise taxes and duties were up \$0.4 billion, or 9.9 per cent, almost entirely due to a \$0.3-billion or 14.8-per-cent gain in GST revenues.



# The Fiscal Monitor

- Employment Insurance (EI) premium revenues decreased by 6.8 per cent, mainly reflecting the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were up \$0.2 billion, or 12.6 per cent. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of transactions from year to year.

Program expenses in August 2007 were \$15.1 billion, up \$0.7 billion, or 5.1 per cent, from August 2006, reflecting increases in transfer payments and operating expenses of departments and agencies.

Transfer payments were up \$0.6 billion, or 6.3 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, were up \$0.1 billion, or 1.8 per cent. Elderly benefits increased 4.4 per cent while EI benefits declined 2.5 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were up 0.3 per cent.

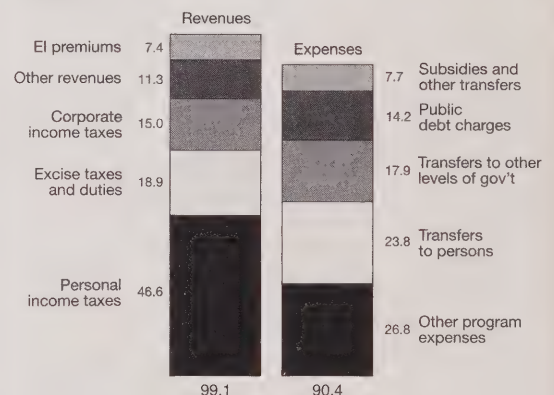
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.1 billion, or 1.7 per cent.
- Subsidies and other transfers increased by \$0.4 billion, or 43.3 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$0.1 billion, or 2.9 per cent.

Public debt charges decreased by \$0.1 billion.

**Revenues and expenses**  
(April to August 2007)

\$ billions





## April to August 2007

Through the first five months of the 2007–08 fiscal year, there was a budgetary surplus of \$8.7 billion, up \$1.5 billion from the \$7.2-billion surplus reported in the same period of 2006–07.

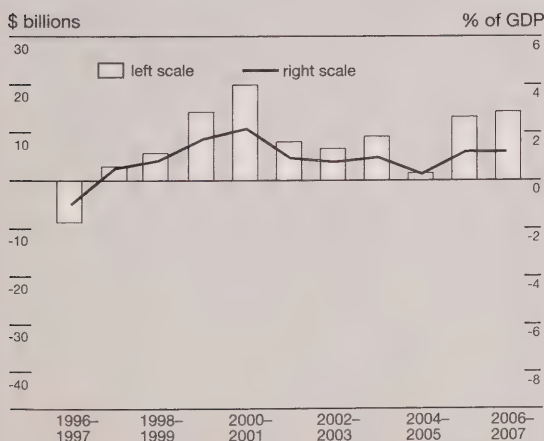
On a year-over-year basis, budgetary revenues increased by \$5.9 billion, or 6.3 per cent, to \$99.1 billion.

- Personal income tax revenues rose \$1.5 billion, or 3.2 per cent, reflecting growth in employment and wages and salaries.
- Corporate income tax revenues were up \$2.8 billion, or 23.2 per cent. The growth in corporate income tax revenues to date reflects ongoing profitability of corporations. However, part of the exceptionally strong growth experienced to date is due to remittance patterns last year. Last year, corporations on average were underpaying their tax liabilities during the first part of the fiscal year, but then made up this difference with significant settlement payments in February and March 2007. As such, the high growth rate of corporate receipts recorded over the April to August period is expected to dissipate over the final three months of this fiscal year.

- Other income tax revenues rose 14.3 per cent, reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties were up \$0.1 billion, or 0.5 per cent. Customs import duties rose by \$148 million, sales and excise taxes were up \$131 million and revenues from the Air Travellers Security Charge increased by \$13 million. GST revenues declined \$0.2 billion, or 1.5 per cent, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues increased by \$0.1 billion, or 1.4 per cent, reflecting gains in employment and wages and salaries, which more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues increased by \$1.2 billion, or 14.6 per cent.

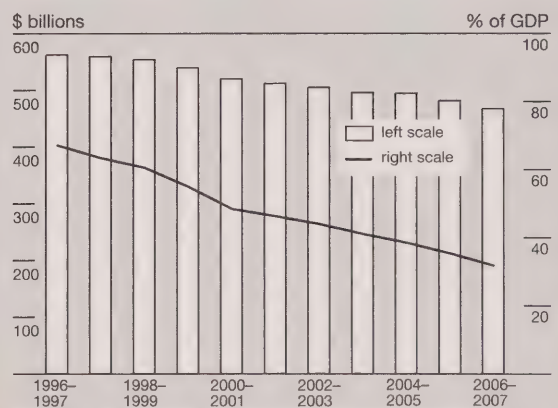
Program expenses in the April to August 2007 period were \$76.3 billion, up \$4.4 billion, or 6.2 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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Transfer payments increased by \$2.5 billion, or 5.4 per cent.

- Major transfers to persons rose by \$1.4 billion, or 6.4 per cent. Elderly benefits increased by 4.4 per cent while EI benefits were up 4.1 per cent. Children's benefits were up \$0.7 billion, reflecting transfers under the UCCB, which began in July 2006.
- Major transfers to other levels of government were up \$0.9 billion, or 5.0 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up \$0.2 billion, or 2.9 per cent.

Other program expenses increased by \$1.9 billion, or 7.7 per cent.

Public debt charges were virtually unchanged.

## **Financial source of \$8.3 billion for April to August 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash

source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$8.7 billion and a requirement of \$0.4 billion from non-budgetary transactions, there was a net financial source of \$8.3 billion in the April to August 2007 period, compared to a net financial source of \$4.2 billion in the same period of 2006.

## **Net financing activities down \$19.8 billion**

The Government used this net financial source of \$8.3 billion and a reduction in its cash balances of \$11.4 billion to reduce its market debt by \$19.8 billion by the end of August 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of August stood at \$9.8 billion.

Table 1  
Summary statement of transactions

	August		April to August	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	17,581	18,611	93,212	99,121
Expenses				
Program expenses	-14,342	-15,071	-71,828	-76,255
Public debt charges	-2,767	-2,629	-14,192	-14,189
Budgetary balance (deficit/surplus)	472	911	7,192	8,677
<b>Non-budgetary transactions</b>	744	654	-3,036	-353
<b>Financial source/requirement</b>	1,216	1,565	4,156	8,324
<b>Net change in financing activities</b>	-1,006	4,849	-17,819	-19,765
<b>Net change in cash balances</b>	210	6,414	-13,663	-11,441
<b>Cash balance at end of period</b>			4,298	9,769

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	August			April to August		
	2006	2007	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,683	8,868	2.1	45,100	46,558	3.2
Corporate income tax	1,938	2,197	13.4	12,177	14,998	23.2
Other income tax	419	510	21.7	1,855	2,121	14.3
Total income tax	11,040	11,575	4.8	59,132	63,677	7.7
Excise taxes and duties						
Goods and services tax	2,279	2,616	14.8	13,144	12,945	-1.5
Customs import duties	362	394	8.8	1,484	1,632	10.0
Sales and excise taxes	879	859	-2.3	3,985	4,116	3.3
Air Travellers Security Charge	28	32	14.3	155	168	8.4
Total excise taxes and duties	3,548	3,901	9.9	18,768	18,861	0.5
Total tax revenues	14,588	15,476	6.1	77,900	82,538	6.0
<b>Employment Insurance premiums</b>	1,210	1,128	-6.8	7,312	7,418	1.4
<b>Other revenues</b>	1,783	2,007	12.6	8,000	9,165	14.6
<b>Total budgetary revenues</b>	17,581	18,611	5.9	93,212	99,121	6.3

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 3

## Budgetary expenses

	August		Change	April to August		Change
	2006	2007		2006-07	2007-08	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,522	2,632	4.4	12,545	13,093	4.4
Employment Insurance benefits	1,160	1,131	-2.5	5,485	5,708	4.1
Children's benefits	949	952	0.3	4,356	5,021	15.3
Total	4,631	4,715	1.8	22,386	23,822	6.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,679	1,779	6.0	8,392	8,895	6.0
Canada Social Transfer	709	734	3.5	3,542	3,917	10.6
Total	2,388	2,513	5.2	11,934	12,812	7.4
Fiscal transfers	1,081	1,324	22.5	5,504	6,010	9.2
Canada's cities and communities	306	0	n/a	306	386	26.1
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-261	-262	0.4	-1,305	-1,260	-3.4
Total	3,514	3,575	1.7	17,089	17,948	5.0
Subsidies and other transfers						
Agriculture and Agri-Food	89	129	44.9	399	436	9.3
Foreign Affairs and International Trade	138	100	-27.5	845	715	-15.4
Health	82	33	-59.8	737	817	10.9
Human Resources and Social Development	86	88	2.3	682	671	-1.6
Indian Affairs and Northern Development	355	367	3.4	2,003	2,046	2.1
Industry	224	225	0.4	747	783	4.8
Other	35	504	1,340.0	2,052	2,214	7.9
Total	1,009	1,446	43.3	7,465	7,682	2.9
Total transfer payments	9,156	9,736	6.3	46,940	49,452	5.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	118	105	-11.0	595	665	11.8
Canada Mortgage and Housing Corporation	158	142	-10.1	798	758	-5.0
Other	211	296	40.3	1,429	1,649	15.4
Total	487	543	11.5	2,822	3,072	8.9
Defence	1,344	1,416	5.4	6,175	6,536	5.8
All other departments and agencies	3,355	3,376	0.6	15,891	17,195	8.2
Total other program expenses	5,186	5,335	2.9	24,888	26,803	7.7
<b>Total program expenses</b>	14,342	15,071	5.1	71,828	76,255	6.2
<b>Public debt charges</b>	2,767	2,629	-5.0	14,192	14,189	0.0
<b>Total budgetary expenses</b>	17,109	17,700	3.5	86,020	90,444	5.1

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	August		April to August	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	472	911	7,192	8,677
<b>Non-budgetary transactions</b>				
Capital investing activities	-114	-251	-413	-1,154
Other investing activities	-47	-72	417	68
Pension and other accounts	1,358	222	1,482	1,855
Other activities				
Accounts payable, receivables, accruals and allowances	-1,625	-167	-7,287	-5,255
Foreign exchange activities	932	651	1,579	2,763
Amortization of tangible capital assets	240	271	1,186	1,370
Total other activities	-453	755	-4,522	-1,122
<b>Total non-budgetary transactions</b>	744	654	-3,036	-353
<b>Net financial source/requirement</b>	1,216	1,565	4,156	8,324

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	August		April to August	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Net financial source/requirement</b>	1,216	1,565	4,156	8,324
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	3,051	3,745	1,620	1,245
Treasury bills	-2,700	1,300	-13,800	-17,800
Canada Savings Bonds	-77	81	-379	-360
Other	-105	-1	-1,015	-499
Total	169	5,125	-13,574	-17,414
Foreign currency borrowings	-945	223	-3,855	-175
Total	-776	5,348	-17,429	-17,589
Cross-currency swap revaluation	-121	-300	-121	-2,098
Unamortized discounts on debt issues	-102	-167	-223	0
Obligations related to capital leases	-7	-32	-46	-78
<b>Net change in financing activities</b>	-1,006	4,849	-17,819	-19,765
<b>Change in cash balance</b>	210	6,414	-13,663	-11,441

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2007	August 31, 2007	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	106,511	94,394	-12,117
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	258,727	1,245
Treasury bills	134,074	116,274	-17,800
Canada Savings Bonds	15,175	14,815	-360
Other	1,743	1,243	-500
Subtotal	408,474	391,059	-17,415
Payable in foreign currencies	10,372	10,197	-175
Cross-currency swap revaluation account	-1,091	-3,189	-2,098
Unamortized discounts and premiums on market debt	-6,659	-6,659	0
Obligations related to capital leases	3,096	3,019	-78
Total unmatured debt	414,192	394,427	-19,765
Pension and other accounts			
Public sector pensions	134,726	135,838	1,112
Other employee and veteran future benefits	45,123	45,799	676
Other pension and other accounts	5,211	5,277	66
Total pension and other accounts	185,060	186,914	1,854
Total interest-bearing debt	599,252	581,342	-17,911
<b>Total liabilities</b>	<b>705,763</b>	<b>675,735</b>	<b>-30,028</b>
<b>Financial assets</b>			
Cash and accounts receivable	92,586	74,282	-18,304
Foreign exchange accounts	44,178	41,415	-2,763
Loans, investments and advances (net of allowances)	45,094	45,026	-68
<b>Total financial assets</b>	<b>181,858</b>	<b>160,723</b>	<b>-21,135</b>
<b>Net debt</b>	<b>523,905</b>	<b>515,012</b>	<b>-8,893</b>
<b>Non-financial assets</b>	<b>56,637</b>	<b>56,421</b>	<b>-216</b>
<b>Federal debt (accumulated deficit)</b>	<b>467,268</b>	<b>458,591</b>	<b>-8,677</b>

Note: Totals may not add due to rounding.

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October 2007



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2007: budgetary surplus of \$0.7 billion

There was a budgetary surplus of \$0.7 billion in September 2007, compared to a \$1.3-billion deficit recorded in September 2006. Budgetary revenues were up \$2.6 billion, or 15.0 per cent, due primarily to strong growth in income tax and non-tax revenues. Program expenses increased by \$0.8 billion, or 5.2 per cent, reflecting increases in transfer payments. Public debt charges decreased by \$0.2 billion.

### April to September 2007: budgetary surplus of \$9.3 billion

For the first six months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$9.3 billion, up \$3.4 billion from the \$5.9-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by \$8.5 billion, or 7.7 per cent, reflecting growth across all income streams, particularly income tax and non-tax revenues. Program expenses were up \$5.2 billion, or 6.0 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.2 billion.

The monthly results through September do not reflect the \$4.8 billion in tax cuts announced in the October 30, 2007 Economic Statement that will take effect in 2007–08. These will be reflected over the remainder of the fiscal year. Specifically, measures retroactive to January 2007 (the reduction of the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600) will be reflected beginning with the October 2007 *Fiscal Monitor*.

## September 2007

There was a budgetary surplus of \$0.7 billion in September 2007, compared to a \$1.3-billion deficit in September 2006.

Budgetary revenues increased by \$2.6 billion, or 15.0 per cent, to \$19.7 billion.

- Personal income tax revenues increased by \$1.0 billion, or 12.0 per cent, driven by strong growth in source deductions, which in turn reflects gains in employment and wages and salaries. Also, there was one more large processing day for payroll deductions in September 2007 than in September 2006.

- Corporate income tax revenues rose \$0.2 billion, or 9.5 per cent, down from the 23.2-per-cent gain recorded through August.
- Other income tax revenues—withholdings from non-residents—increased by \$0.2 billion, or 83.5 per cent. Other income tax revenues can be volatile on a monthly basis, as they are determined in large part by corporate dividend payments.



# The Fiscal Monitor

- Excise taxes and duties were up \$0.3 billion, or 9.1 per cent, due in large part to a \$0.3-billion or 13.7-per-cent gain in goods and services tax (GST) revenues.
- Employment Insurance (EI) premium revenues fell 4.8 per cent, consistent with the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.8 billion, or 62.1 per cent.

Program expenses in September 2007 were \$16.3 billion, up \$0.8 billion or 5.2 per cent from September 2006, reflecting increases in transfer payments, which were partially offset by a decline in other program expenses of departments and agencies.

Transfer payments were up \$1.4 billion, or 15.2 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were up \$0.1 billion, or 1.4 per cent. Elderly benefits increased 3.7 per cent while EI benefits declined 2.8 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were relatively stable.

- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.7 billion, or 20.9 per cent, reflecting Budget 2007 measures.
- Subsidies and other transfers increased by \$0.7 billion, or 42.4 per cent.

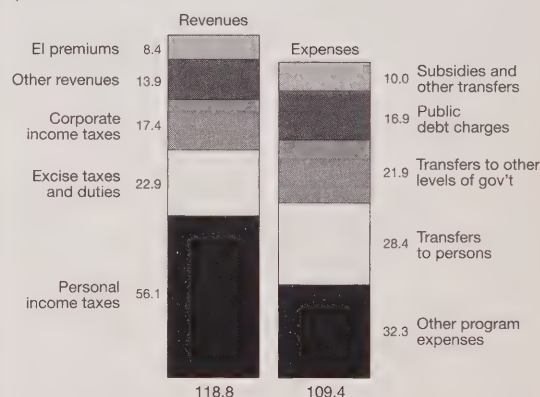
Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses decreased by \$0.6 billion, or 10.2 per cent, due in part to a one-time adjustment in September 2006 to reflect an under-accrual of pension costs in prior months.

Public debt charges decreased by \$0.2 billion.

## Revenues and expenses

(April to September 2007)

\$ billions



## April to September 2007

Through the first six months of the 2007–08 fiscal year, there was a budgetary surplus of \$9.3 billion, up \$3.4 billion from the \$5.9-billion surplus reported during the same period of 2006–07.

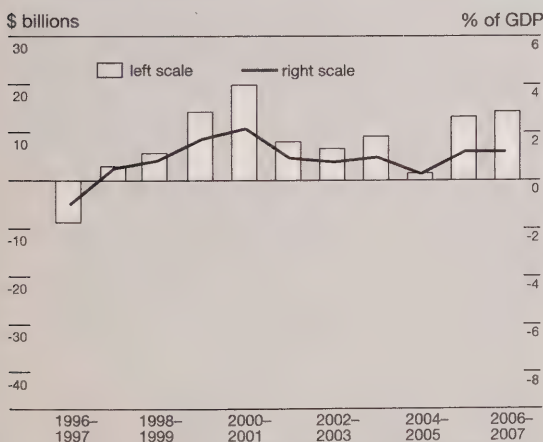
On a year-over-year basis, budgetary revenues increased by \$8.5 billion, or 7.7 per cent, to \$118.8 billion.

- Personal income tax revenues rose \$2.5 billion, or 4.6 per cent, reflecting growth in employment and wages and salaries, dampened by recent tax relief measures.
- Corporate income tax revenues were up \$3.0 billion, or 21.1 per cent, due to ongoing profitability of corporations. The exceptionally strong growth to date also reflects tax remittance patterns last year, when corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made up this difference with significant settlement payments in February and March 2007. As such, the high year-to-date growth rate of corporate receipts is expected to dissipate over the final three months of this fiscal year.

- Other income tax revenues rose 22.9 per cent, reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties increased by \$0.4 billion, or 1.9 per cent. GST revenues rose \$0.1 billion, or 0.9 per cent. Customs import duties increased by \$0.2 billion, sales and excise taxes by \$0.1 billion and revenues from the Air Travellers Security Charge by \$15 million.
- EI premium revenues were up \$0.1 billion, or 0.7 per cent, as gains in employment and wages and salaries more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues rose \$2.0 billion, or 21.4 per cent.

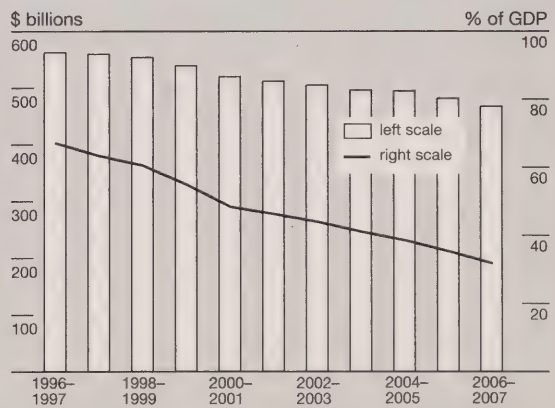
Program expenses in the April to September 2007 period were \$92.5 billion, up \$5.2 billion, or 6.0 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



# The Fiscal Monitor

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Transfer payments increased by \$3.9 billion, or 7.0 per cent.

- Major transfers to persons rose \$1.5 billion, or 5.6 per cent. Elderly benefits increased by 4.3 per cent and EI benefits by 3.0 per cent. Children's benefits were up \$0.7 billion, reflecting transfers under the UCCB, which began in July 2006.
- Major transfers to other levels of government were up \$1.5 billion, or 7.6 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up \$0.9 billion, or 9.9 per cent.

Other program expenses increased by \$1.3 billion, or 4.2 per cent.

Public debt charges decreased by \$0.2 billion, or 1.1 per cent.

## **Financial source of \$13.4 billion for April to September 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets.

The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$9.3 billion and a source of \$4.0 billion from non-budgetary transactions, there was a net financial source of \$13.4 billion in the April to September 2007 period, compared to a net financial source of \$3.1 billion in the same period of 2006.

## **Net financing activities down \$31.4 billion**

The Government used this net financial source of \$13.4 billion and a reduction in its cash balances of \$18.1 billion to reduce its market debt by \$31.4 billion by the end of September 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September stood at \$3.2 billion, slightly below last year's level.

Table 1  
Summary statement of transactions

	September		April to September	
	2006	2007	2006–07	2007–08
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	17,084	19,655	110,297	118,776
Expenses				
Program expenses	-15,481	-16,284	-87,309	-92,540
Public debt charges	-2,886	-2,707	-17,078	-16,896
Budgetary balance (deficit/surplus)	-1,283	664	5,910	9,340
<b>Non-budgetary transactions</b>	177	4,389	-2,860	4,036
<b>Financial source/requirement</b>	-1,106	5,053	3,050	13,376
<b>Net change in financing activities</b>	292	-11,663	-17,527	-31,428
<b>Net change in cash balances</b>	-814	-6,610	-14,477	-18,052
<b>Cash balance at end of period</b>			3,482	3,154

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	September			April to September		
	2006	2007	Change	2006–07	2007–08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,513	9,533	12.0	53,613	56,091	4.6
Corporate income tax	2,202	2,411	9.5	14,379	17,409	21.1
Other income tax	261	479	83.5	2,116	2,600	22.9
Total income tax	10,976	12,423	13.2	70,108	76,100	8.5
Excise taxes and duties						
Goods and services tax	2,510	2,854	13.7	15,654	15,799	0.9
Customs import duties	307	319	3.9	1,791	1,951	8.9
Sales and excise taxes	873	855	-2.1	4,858	4,971	2.3
Air Travellers Security Charge	28	30	7.1	183	198	8.2
Total excise taxes and duties	3,718	4,058	9.1	22,486	22,919	1.9
Total tax revenues	14,694	16,481	12.2	92,594	99,019	6.9
<b>Employment Insurance premiums</b>	1,046	996	-4.8	8,358	8,414	0.7
<b>Other revenues</b>	1,344	2,178	62.1	9,345	11,343	21.4
<b>Total budgetary revenues</b>	17,084	19,655	15.0	110,297	118,776	7.7

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	September			April to September		
	2006	2007	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,551	2,645	3.7	15,096	15,738	4.3
Employment Insurance benefits	988	960	-2.8	6,473	6,668	3.0
Children's benefits	976	972	-0.4	5,332	5,993	12.4
Total	4,515	4,577	1.4	26,901	28,399	5.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,779	6.0	10,070	10,674	6.0
Canada Social Transfer	708	932	31.6	4,250	4,849	14.1
Total	2,386	2,711	13.6	14,320	15,523	8.4
Fiscal transfers	1,111	1,266	14.0	6,613	7,276	10.0
Canada's cities and communities	0	196	n/a	306	582	90.2
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-261	-262	0.4	-1,566	-1,521	-2.9
Total	3,236	3,911	20.9	20,323	21,860	7.6
Subsidies and other transfers						
Agriculture and Agri-Food	383	153	-60.1	782	589	-24.7
Foreign Affairs and International Trade	138	255	84.8	983	970	-1.3
Health	207	201	-2.9	946	1,018	7.6
Human Resources and Social Development	146	140	-4.1	828	811	-2.1
Indian Affairs and Northern Development	378	369	-2.4	2,381	2,415	1.4
Industry	124	145	16.9	871	928	6.5
Other	243	1,043	329.2	2,295	3,257	41.9
Total	1,619	2,306	42.4	9,086	9,988	9.9
Total transfer payments	9,370	10,794	15.2	56,310	60,247	7.0
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	100	70	-30.0	695	735	5.8
Canada Mortgage and Housing Corporation	176	187	6.3	974	945	-3.0
Other	281	286	1.8	1,710	1,935	13.2
Total	557	543	-2.5	3,379	3,615	7.0
Defence	1,283	1,293	0.8	7,458	7,829	5.0
All other departments and agencies	4,271	3,654	-14.4	20,162	20,849	3.4
Total other program expenses	6,111	5,490	-10.2	30,999	32,293	4.2
<b>Total program expenses</b>	15,481	16,284	5.2	87,309	92,540	6.0
<b>Public debt charges</b>	2,886	2,707	-6.2	17,078	16,896	-1.1
<b>Total budgetary expenses</b>	18,367	18,991	3.4	104,387	109,436	4.8

Note: Totals may not add due to rounding.



Table 4

## The budgetary balance and financial source/requirement

	September		April to September	
	2006	2007	2006–07	2007–08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-1,283	664	5,910	9,340
<b>Non-budgetary transactions</b>				
Capital investing activities	-411	-345	-824	-1,499
Other investing activities	-887	-868	-471	-800
Pension and other accounts	1,074	2,164	2,555	4,019
Other activities				
Accounts payable, receivables, accruals and allowances	368	1,459	-6,917	-3,796
Foreign exchange activities	-322	1,712	1,257	4,475
Amortization of tangible capital assets	355	267	1,540	1,637
Total other activities	401	3,438	-4,120	2,316
<b>Total non-budgetary transactions</b>	177	4,389	-2,860	4,036
<b>Net financial source/requirement</b>	-1,106	5,053	3,050	13,376

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	September		April to September	
	2006	2007	2006–07	2007–08
	(\$ millions)			
<b>Net financial source/requirement</b>	-1,106	5,053	3,050	13,376
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-2,832	-4,662	-1,212	-3,417
Treasury bills	3,200	-5,400	-10,600	-23,200
Canada Savings Bonds	-46	-37	-425	-397
Other	-114	-52	-1,129	-551
Total	208	-10,151	-13,366	-27,565
Foreign currency borrowings	-75	-556	-3,929	-731
Total	133	-10,707	-17,295	-28,296
Cross-currency swap revaluation	118	-1,038	-3	-3,136
Unamortized discounts on debt issues	38	96	-185	96
Obligations related to capital leases	3	-14	-44	-92
<b>Net change in financing activities</b>	292	-11,663	-17,527	-31,428
<b>Change in cash balance</b>	-814	-6,610	-14,477	-18,052

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2007	September 30, 2007	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	106,511	95,994	-10,517
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	254,065	-3,417
Treasury bills	134,074	110,874	-23,200
Canada Savings Bonds	15,175	14,778	-397
Other	1,743	1,192	-551
Subtotal	408,474	380,909	-27,565
Payable in foreign currencies	10,372	9,641	-731
Cross-currency swap revaluation account	-1,091	-4,227	-3,136
Unamortized discounts and premiums on market debt	-6,659	-6,563	96
Obligations related to capital leases	3,096	3,004	-92
Total unmaturing debt	414,192	382,764	-31,428
Pension and other accounts			
Public sector pensions	134,726	136,085	1,359
Other employee and veteran future benefits	45,123	45,934	811
Other pension and other accounts	5,211	7,060	1,849
Total pension and other accounts	185,060	189,079	4,019
Total interest-bearing debt	599,252	571,843	-27,410
<b>Total liabilities</b>	<b>705,763</b>	<b>667,837</b>	<b>-37,927</b>
<b>Financial assets</b>			
Cash and accounts receivable	92,586	67,812	-24,774
Foreign exchange accounts	44,178	39,703	-4,475
Loans, investments and advances (net of allowances)	45,094	45,894	800
<b>Total financial assets</b>	<b>181,858</b>	<b>153,409</b>	<b>-28,449</b>
<b>Net debt</b>	<b>523,905</b>	<b>514,428</b>	<b>-9,478</b>
<b>Non-financial assets</b>	<b>56,637</b>	<b>56,499</b>	<b>-138</b>
<b>Federal debt (accumulated deficit)</b>	<b>467,268</b>	<b>457,929</b>	<b>-9,340</b>

Note: Totals may not add due to rounding.

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November 2007

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### October 2007: budgetary deficit of \$2.7 billion

There was a budgetary deficit of \$2.7 billion in October 2007, compared to a surplus of \$0.5 billion in October 2006. The October 2007 results include a \$2.5-billion adjustment to revenues to include the cost to date of personal income tax measures announced in the October 30, 2007 Economic Statement. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600, both effective January 1, 2007. Budgetary revenues were down \$1.7 billion, as a decline in personal income tax revenues from this adjustment was partially offset by gains in corporate income tax revenues and other revenues. Program expenses increased by \$1.7 billion, or 11.3 per cent, reflecting increases in transfer payments and departmental operating expenses. Public debt charges decreased by \$0.1 billion.

### April to October 2007: budgetary surplus of \$6.6 billion

For the first seven months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$6.6 billion, up \$0.2 billion from the \$6.5-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by \$6.8 billion, or 5.3 per cent, largely driven by strong growth in corporate income tax revenues and non-tax revenues. Program expenses were up \$6.9 billion, or 6.8 per cent, due to higher transfer payments and departmental operating expenses. Public debt charges were down \$0.3 billion.

### October 2007

There was a budgetary deficit of \$2.7 billion in October 2007, compared to a \$0.5-billion surplus in October 2006.

Budgetary revenues decreased by \$1.7 billion, or 9.2 per cent, to \$16.6 billion.

- Personal income tax revenues decreased by \$2.6 billion, or 29.2 per cent, reflecting the inclusion in the October 2007 results of \$2.5 billion in personal income tax reductions announced in the October 30, 2007 Economic Statement pertaining to the January to October 2007 period. In addition, there was one less large

processing day for payroll deductions in October 2007 than in October 2006.

- Corporate income tax revenues rose \$0.3 billion, or 12.6 per cent, down from the 21.1-per-cent gain recorded through September.
- Other income tax revenues—withholdings from non-residents—increased by \$0.1 billion, or 15.6 per cent.
- Excise taxes and duties decreased by \$0.1 billion, or 2.0-per cent, due in large part to a \$0.2-billion, or 6.0-per-cent, decline in goods and services tax (GST) revenues.





- Employment Insurance (EI) premium revenues fell 4.8 per cent, consistent with the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.7 billion, or 33.2 per cent, reflecting a gain from the sale and leaseback of seven federal office properties.

Program expenses in October 2007 were \$16.5 billion, up \$1.7 billion, or 11.3 per cent, from October 2006, reflecting increases in transfer payments, Crown corporation expenses and expenses of departments and agencies.

Transfer payments were up \$0.7 billion, or 7.5 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, were up \$0.1 billion, or 3.1 per cent. Elderly benefits increased by 6.4 per cent while EI benefits declined by 1.5 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were unchanged.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.4 billion, or 11.5 per cent, reflecting Budget 2007 measures.
- Subsidies and other transfers increased by \$0.2 billion, or 12.1 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses rose \$1.0 billion, or 18.1 per cent, due in part to a one-time adjustment to reflect an under-accrual of pension and other benefit costs in prior months.

Public debt charges decreased by \$0.1 billion.

## April to October 2007

Through the first seven months of the 2007–08 fiscal year, there was a budgetary surplus of \$6.6 billion, up \$0.2 billion from the \$6.5 billion surplus reported during the same period of 2006–07.

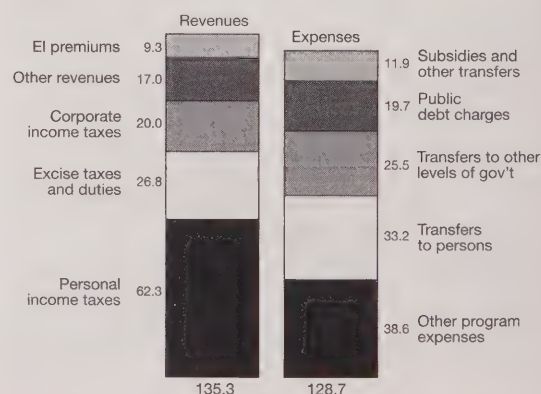
On a year-over-year basis, budgetary revenues increased by \$6.8 billion, or 5.3 per cent, to \$135.3 billion.

- Personal income tax revenues declined by \$0.1 billion, or 0.1 per cent, reflecting the impact of tax relief measures retroactive to January 2007 announced in the October 30, 2007 Economic Statement.
- Corporate income tax revenues were up \$3.3 billion, or 19.9 per cent, reflecting ongoing profitability of corporations.

## Revenues and expenses

(April to October 2007)

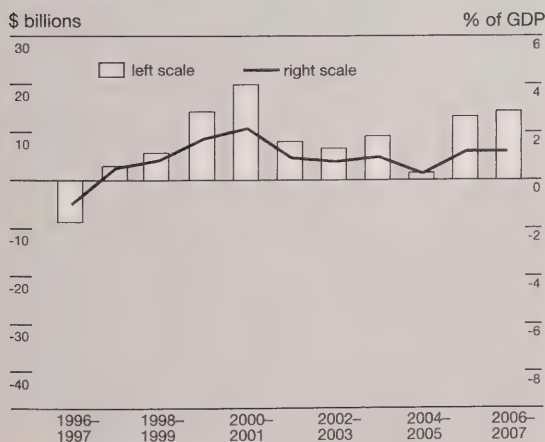
\$ billions



The exceptionally strong growth to date also reflects tax remittance patterns last year, when corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made up this difference with significant settlement payments in February and March 2007. As such, the high year-to-date growth rate of corporate receipts is expected to dissipate over the final three months of this fiscal year.

- Other income tax revenues rose 21.8 per cent, reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties increased by \$0.4 billion, or 1.3 per cent. GST revenues declined by \$31 million, or 0.2 per cent. Customs import duties and sales and excise taxes were both up \$0.2 billion, while revenues from the Air Travellers Security Charge increased by \$16 million.
- EI premium revenues were up \$12 million, or 0.1 per cent, as gains in employment and wages and salaries offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues rose \$2.7 billion, or 23.4 per cent.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

Program expenses in the April to October 2007 period were \$109.1 billion, up \$6.9 billion, or 6.8 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

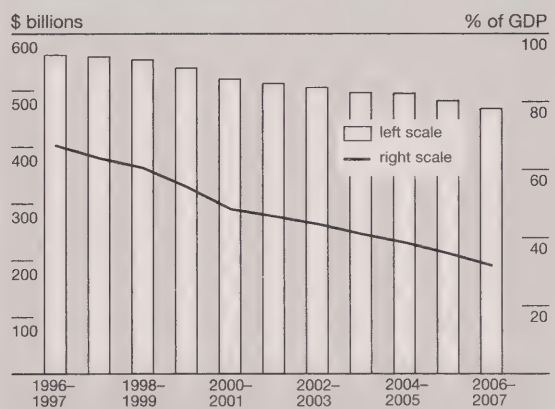
Transfer payments increased by \$4.7 billion, or 7.1 per cent.

- Major transfers to persons were up \$1.6 billion, or 5.2 per cent. Elderly benefits increased by 4.6 per cent and EI benefits by 2.3 per cent. Children's benefits were up \$0.7 billion, as transfers under the UCCB began part way through the 2006-07 fiscal year, in July 2006.
- Major transfers to other levels of government were up \$1.9 billion, or 8.1 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up \$1.1 billion, or 10.3 per cent.

Other program expenses increased by \$2.3 billion, or 6.2 per cent.

Public debt charges decreased by \$0.3 billion, or 1.4 per cent, reflecting lower levels of unmatured debt.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

## **Financial source of \$16.3 billion for April to October 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$6.6 billion and a source of \$9.7 billion from non-budgetary transactions, there was a net financial source of \$16.3 billion in the April to October 2007 period, compared to a net financial source of \$2.9 billion in the same period of 2006. The appreciation of the Canadian dollar in 2007–08 is a significant factor in the increase in the financial source over last year.

## **Net financing activities down \$31.5 billion**

The Government used this net financial source of \$16.3 billion and a reduction in its cash balances of \$15.2 billion to reduce its market debt by \$31.5 billion by the end of October 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at \$6.0 billion, \$2.5 billion above last year's level.



Table 1

## Summary statement of transactions

	October		April to October	
	2006	2007	2006-07	2007-08
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	18,251	16,568	128,549	135,343
Expenses				
Program expenses	-14,851	-16,528	-102,158	-109,068
Public debt charges	-2,863	-2,760	-19,941	-19,656
Budgetary balance (deficit/surplus)	537	-2,720	6,450	6,619
<b>Non-budgetary transactions</b>	-728	5,653	-3,590	9,688
<b>Financial source/requirement</b>	-191	2,933	2,860	16,307
<b>Net change in financing activities</b>	134	-120	-17,393	-31,548
<b>Net change in cash balances</b>	-57	2,813	-14,533	-15,241
<b>Cash balance at end of period</b>			3,426	5,963

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	October			April to October		
	2006	2007	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,751	6,200	-29.2	62,364	62,291	-0.1
Corporate income tax	2,256	2,541	12.6	16,635	19,950	19.9
Other income tax	347	401	15.6	2,463	3,001	21.8
Total income tax	11,354	9,142	-19.5	81,462	85,242	4.6
Excise taxes and duties						
Goods and services tax	2,930	2,754	-6.0	18,584	18,553	-0.2
Customs import duties	334	346	3.6	2,125	2,297	8.1
Sales and excise taxes	710	791	11.4	5,568	5,762	3.5
Air Travellers Security Charge	30	31	3.3	213	229	7.5
Total excise taxes and duties	4,004	3,922	-2.0	26,490	26,841	1.3
Total tax revenues	15,358	13,064	-14.9	107,952	112,083	3.8
<b>Employment Insurance premiums</b>	918	874	-4.8	9,276	9,288	0.1
<b>Other revenues</b>	1,975	2,630	33.2	11,321	13,972	23.4
<b>Total budgetary revenues</b>	18,251	16,568	-9.2	128,549	135,343	5.3

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	October		Change	April to October		Change
	2006	2007		2006-07	2007-08	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,521	2,683	6.4	17,617	18,421	4.6
Employment Insurance benefits	1,121	1,104	-1.5	7,594	7,772	2.3
Children's benefits	987	987	0.0	6,319	6,980	10.5
Total	4,629	4,774	3.1	31,530	33,173	5.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,799	7.2	11,748	12,473	6.2
Canada Social Transfer	708	832	17.5	4,958	5,681	14.6
Total	2,386	2,631	10.3	16,706	18,154	8.7
Fiscal transfers	1,097	1,210	10.3	7,709	8,486	10.1
Canada's cities and communities	0	13	n/a	306	595	94.4
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-262	-264	0.8	-1,828	-1,785	-2.4
Total	3,221	3,590	11.5	23,543	25,450	8.1
Subsidies and other transfers						
Agriculture and Agri-Food	265	116	-56.2	1,047	705	-32.7
Foreign Affairs and International Trade	139	139	0.0	1,122	1,109	-1.2
Health	108	136	25.9	1,053	1,154	9.6
Human Resources and Social Development	114	166	45.6	942	977	3.7
Indian Affairs and Northern Development	373	475	27.3	2,754	2,890	4.9
Industry	246	198	-19.5	1,117	1,126	0.8
Other	453	673	48.6	2,750	3,930	42.9
Total	1,698	1,903	12.1	10,785	11,891	10.3
Total transfer payments	9,548	10,267	7.5	65,858	70,514	7.1
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	69	75	8.7	764	810	6.0
Canada Mortgage and Housing Corporation	209	181	-13.4	1,183	1,126	-4.8
Other	267	325	21.7	1,977	2,260	14.3
Total	545	581	6.6	3,924	4,196	6.9
Defence	1,359	1,995	46.8	8,817	9,824	11.4
All other departments and agencies	3,399	3,685	8.4	23,559	24,534	4.1
Total other program expenses	5,303	6,261	18.1	36,300	38,554	6.2
<b>Total program expenses</b>	14,851	16,528	11.3	102,158	109,068	6.8
<b>Public debt charges</b>	2,863	2,760	-3.6	19,941	19,656	-1.4
<b>Total budgetary expenses</b>	17,714	19,288	8.9	122,099	128,724	5.4

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	October		April to October	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	537	-2,720	6,450	6,619
<b>Non-budgetary transactions</b>				
Capital investing activities	-218	384	-1,042	-1,115
Other investing activities	-1,314	-253	-1,785	-1,053
Pension and other accounts	331	1,123	2,886	5,142
Other activities				
Accounts payable, receivables, accruals and allowances	-308	2,340	-7,227	-1,457
Foreign exchange activities	535	2,274	1,792	6,749
Amortization of tangible capital assets	246	-215	1,786	1,422
Total other activities	473	4,399	-3,649	6,714
<b>Total non-budgetary transactions</b>	-728	5,653	-3,590	9,688
<b>Net financial source/requirement</b>	-191	2,933	2,860	16,307

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	October		April to October	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Net financial source/requirement</b>	-191	2,933	2,860	16,307
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,467	29	255	-3,388
Treasury bills	-1,300	1,600	-11,900	-21,600
Canada Savings Bonds	-45	-56	-470	-453
Other	-1	-5	-1,130	-556
Total	121	1,568	-13,245	-25,997
Foreign currency borrowings	-93	-855	-4,022	-1,586
Total	28	713	-17,267	-27,583
Cross-currency swap revaluation	129	-1,224	126	-4,360
Unamortized discounts on debt issues	-17	-93	-202	3
Obligations related to capital leases	-6	484	-50	392
<b>Net change in financing activities</b>	134	-120	-17,393	-31,548
<b>Change in cash balance</b>	-57	2,813	-14,533	-15,241

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2007	October 31, 2007	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	106,511	100,175	-6,336
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	254,094	-3,388
Treasury bills	134,074	112,474	-21,600
Canada Savings Bonds	15,175	14,721	-454
Other	1,743	1,187	-556
Subtotal	408,474	382,477	-25,997
Payable in foreign currencies	10,372	8,786	-1,586
Cross-currency swap revaluation account	-1,091	-5,451	-4,360
Unamortized discounts and premiums on market debt	-6,659	-6,656	3
Obligations related to capital leases	3,096	3,488	392
Total unmatured debt	414,192	382,644	-31,548
Pension and other accounts			
Public sector pensions	134,726	136,613	1,887
Other employee and veteran future benefits	45,123	46,500	1,377
Other pension and other accounts	5,211	7,088	1,877
Total pension and other accounts	185,060	190,202	5,142
Total interest-bearing debt	599,252	572,845	-26,407
<b>Total liabilities</b>	<b>705,763</b>	<b>673,021</b>	<b>-32,742</b>
<b>Financial assets</b>			
Cash and accounts receivable	92,586	72,466	-20,120
Foreign exchange accounts	44,178	37,429	-6,749
Loans, investments and advances (net of allowances)	45,094	46,147	1,053
<b>Total financial assets</b>	<b>181,858</b>	<b>156,042</b>	<b>-25,816</b>
<b>Net debt</b>	<b>523,905</b>	<b>516,979</b>	<b>-6,926</b>
<b>Non-financial assets</b>	<b>56,637</b>	<b>56,330</b>	<b>-307</b>
<b>Federal debt (accumulated deficit)</b>	<b>467,268</b>	<b>460,649</b>	<b>-6,619</b>

Note: Totals may not add due to rounding.

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December 2007

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2007: budgetary surplus of \$0.1 billion

There was a budgetary surplus of \$0.1 billion in November 2007, compared to a surplus of \$0.5 billion in November 2006. Budgetary revenues were up \$0.7 billion, reflecting gains across the largest revenue streams, offset by a decline in non-resident withholding taxes resulting from a one-time gain recorded in November 2006. Program expenses increased by \$1.0 billion, or 6.5 per cent, primarily reflecting higher transfer payments. Public debt charges increased by \$0.1 billion.

### April to November 2007: budgetary surplus of \$6.7 billion

For the first eight months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$6.7 billion, down \$0.2 billion from the \$6.9-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by \$7.5 billion, or 5.1 per cent, reflecting growth in nearly all revenue streams, particularly corporate income tax and other revenues. The results to date include the cost of personal income tax relief measures introduced in the October 30, 2007, Economic Statement pertaining to the January to November 2007 period, totalling \$2.7 billion. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600, both effective January 1, 2007. Program expenses were up \$7.9 billion, or 6.7 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.2 billion.

### November 2007

There was a budgetary surplus of \$0.1 billion in November 2007, compared to a \$0.5-billion surplus in November 2006.

On a year-over-year basis, budgetary revenues increased by \$0.7 billion, or 3.9 per cent, to \$19.2 billion.

- Personal income tax revenues increased by \$0.2 billion, or 2.5 per cent, as growth was dampened by tax relief introduced in the October 30, 2007, Economic Statement.
- Corporate income tax revenues rose \$0.3 billion, or 12.3 per cent.
- Other income tax revenues—withholdings from non-residents—fell by \$0.4 billion, or 42.6 per cent, reflecting a one-time payment of \$0.5 billion received in November 2006 in respect of the sale of Canadian assets by a non-resident firm.
- Excise taxes and duties were up \$0.4 billion, or 12.4 per cent. The increase was largely due to a \$0.4-billion or 18.1-per-cent increase in goods and services tax (GST) revenues, following a decline of 6.0 per cent in GST revenues in October.



Customs import duties were down \$4 million, sales and excise tax revenues increased by \$10 million, and revenues from the Air Travellers Security Charge were \$1 million lower.

- Employment Insurance (EI) premium revenues were down 7.5 per cent, consistent with the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.2 billion, or 12.6 per cent.

Program expenses in November 2007 were \$16.3 billion, up \$1.0 billion, or 6.5 per cent, from November 2006, primarily reflecting higher transfer payments.

Transfer payments were up \$0.8 billion, or 8.4 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were relatively stable. Elderly benefits increased 0.9 per cent and EI benefits increased 2.1 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), declined 1.8 per cent.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up 13.7 per cent, or \$0.5 billion, reflecting Budget 2007 measures.

- Subsidies and other transfers increased by \$0.3 billion, or 18.5 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses rose \$0.2 billion, or 3.2 per cent.

Public debt charges increased by \$0.1 billion.

## April to November 2007

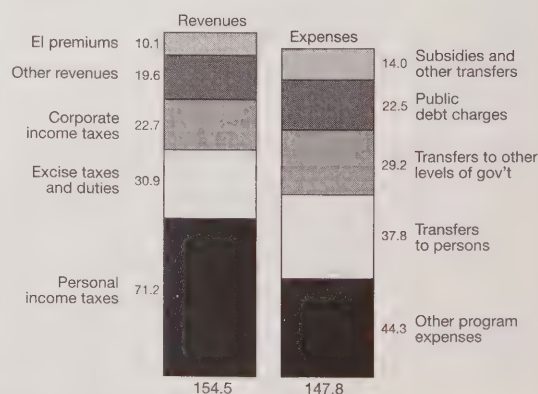
Through the first eight months of the 2007–08 fiscal year, there was a budgetary surplus of \$6.7 billion, down \$0.2 billion from the \$6.9-billion surplus reported during the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by \$7.5 billion, or 5.1 per cent, to \$154.5 billion.

- Personal income tax revenues increased by \$0.1 billion, or 0.2 per cent, reflecting \$2.7 billion in tax relief measures retroactive to January 2007 announced in the October 30, 2007, Economic Statement.

## Revenues and expenses (April to November 2007)

\$ billions





- Corporate income tax revenues were up \$3.6 billion, or 18.9 per cent, reflecting ongoing profitability of corporations. The exceptionally strong growth to date also reflects tax remittance patterns of corporations in the prior year, when corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made up this difference with significant settlement payments in February and March 2007. As such, the high year-to-date growth rate of corporate receipts is expected to dissipate over the final three months of this fiscal year.
- Other income tax revenues rose \$0.1 billion, or 3.3 per cent.
- Excise taxes and duties increased by \$0.8 billion, or 2.7 per cent. GST revenues increased by \$0.4 billion, or 2.0 per cent. Customs import duties and sales and excise tax revenues were both up \$0.2 billion, while revenues from the Air Travellers Security Charge increased by \$15 million.
- EI premium revenues were down \$50 million, or 0.5 per cent, reflecting the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.

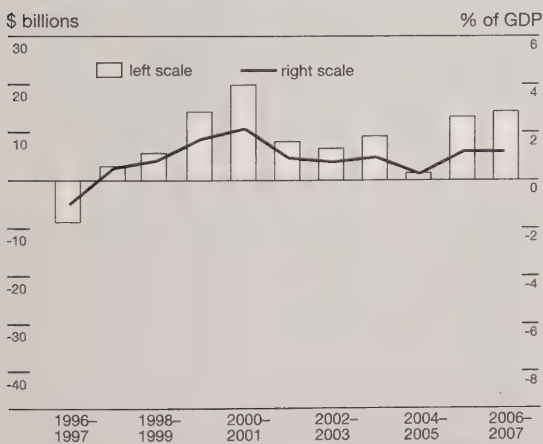
- Other revenues rose \$2.9 billion, or 21.9 per cent, boosted by a gain from the sale and leaseback of seven federal office properties.

Program expenses in the April to November 2007 period were \$125.4 billion, up \$7.9 billion, or 6.7 per cent, from the same period of 2006, reflecting an increase in transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments increased by \$5.5 billion, or 7.2 per cent.

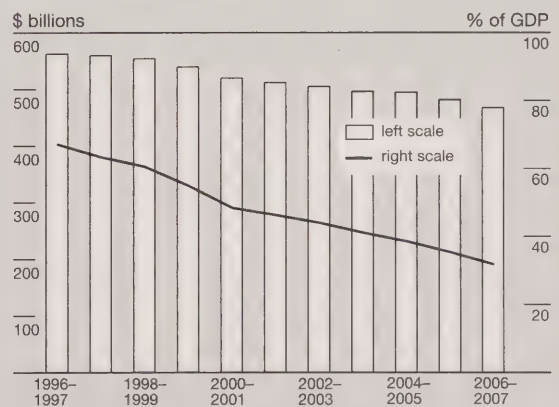
- Major transfers to persons were up \$1.7 billion, or 4.6 per cent. Elderly benefits increased 4.1 per cent and EI benefits increased 2.3 per cent. Children's benefits were up \$0.6 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.
- Major transfers to other levels of government were up \$2.4 billion, or 8.8 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- Subsidies and other transfers were up \$1.4 billion, or 11.4 per cent.

Other program expenses increased by \$2.4 billion, or 5.8 per cent.

Public debt charges decreased by \$0.2 billion, or 0.8 per cent, reflecting lower unmatured debt levels.

## **Financial source of \$15.5 billion for April to November 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$6.7 billion and a source of \$8.8 billion from non-budgetary transactions, there was a financial source of \$15.5 billion in the April to November 2007 period, compared to a financial source of \$2.8 billion in the same period of 2006. The appreciation of the Canadian dollar in 2007 is a significant factor in the increase in the financial source.

## **Net financing activities down \$24.7 billion**

The Government used this financial source of \$15.5 billion and a reduction in its cash balances of \$9.2 billion to reduce its market debt by \$24.7 billion by the end of November 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of November 2007 stood at \$12.0 billion, \$1.3 billion below their level at the end of November 2006.

Table 1

## Summary statement of transactions

	November		April to November	
	2006	2007	2006–07	2007–08
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	18,469	19,189	147,018	154,532
Expenses				
Program expenses	-15,298	-16,290	-117,456	-125,358
Public debt charges	-2,709	-2,814	-22,650	-22,470
Budgetary balance (deficit/surplus)	462	85	6,912	6,704
<b>Non-budgetary transactions</b>	-553	-874	-4,143	8,814
<b>Financial source/requirement</b>	-91	-789	2,769	15,518
<b>Net change in financing activities</b>	10,010	6,858	-7,383	-24,690
<b>Net change in cash balances</b>	9,919	6,069	-4,614	-9,172
<b>Cash balance at end of period</b>			13,346	12,035

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	November			April to November		
	2006	2007	Change	2006–07	2007–08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,717	8,938	2.5	71,081	71,229	0.2
Corporate income tax	2,490	2,796	12.3	19,125	22,746	18.9
Other income tax	994	571	-42.6	3,457	3,572	3.3
Total income tax	12,201	12,305	0.9	93,663	97,547	4.1
Excise taxes and duties						
Goods and services tax	2,452	2,896	18.1	21,036	21,449	2.0
Customs import duties	304	300	-1.3	2,429	2,597	6.9
Sales and excise taxes	833	843	1.2	6,401	6,605	3.2
Air Travellers Security Charge	30	29	-3.3	243	258	6.2
Total excise taxes and duties	3,619	4,068	12.4	30,109	30,909	2.7
Total tax revenues	15,820	16,373	3.5	123,772	128,456	3.8
<b>Employment Insurance premiums</b>	825	763	-7.5	10,101	10,051	-0.5
<b>Other revenues</b>	1,824	2,053	12.6	13,145	16,025	21.9
<b>Total budgetary revenues</b>	18,469	19,189	3.9	147,018	154,532	5.1

Note: Totals may not add due to rounding.



# The Fiscal Monitor

Table 3

## Budgetary expenses

	November			April to November		
	2006	2007	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,562	2,586	0.9	20,179	21,007	4.1
Employment Insurance benefits	1,041	1,063	2.1	8,635	8,835	2.3
Children's benefits	1,000	982	-1.8	7,319	7,962	8.8
Total	4,603	4,631	0.6	36,133	37,804	4.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,679	1,804	7.4	13,427	14,277	6.3
Canada Social Transfer	709	832	17.3	5,667	6,513	14.9
Total	2,388	2,636	10.4	19,094	20,790	8.9
Fiscal transfers	1,125	1,266	12.5	8,832	9,752	10.4
Canada's cities and communities	38	127	234.2	344	722	109.9
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-227	-248	9.3	-2,055	-2,033	-1.1
Total	3,324	3,781	13.7	26,865	29,231	8.8
Subsidies and other transfers						
Agriculture and Agri-Food	324	198	-38.9	1,371	903	-34.1
Foreign Affairs and International Trade	189	115	-39.2	1,311	1,224	-6.6
Health	208	213	2.4	1,261	1,367	8.4
Human Resources and Social Development	136	119	-12.5	1,078	1,096	1.7
Indian Affairs and Northern Development	351	370	5.4	3,105	3,260	5.0
Industry	135	110	-18.5	1,252	1,236	-1.3
Other	421	965	129.2	3,173	4,895	54.3
Total	1,764	2,090	18.5	12,551	13,981	11.4
Total transfer payments	9,691	10,502	8.4	75,549	81,016	7.2
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	126	58	-54.0	890	868	-2.5
Canada Mortgage and Housing Corporation	172	170	-1.2	1,355	1,296	-4.4
Other	241	327	35.7	2,218	2,587	16.6
Total	539	555	3.0	4,463	4,751	6.5
Defence	1,435	1,516	5.6	10,252	11,340	10.6
All other departments and agencies	3,633	3,717	2.3	27,192	28,251	3.9
Total other program expenses	5,607	5,788	3.2	41,907	44,342	5.8
<b>Total program expenses</b>	15,298	16,290	6.5	117,456	125,358	6.7
<b>Public debt charges</b>	2,709	2,814	3.9	22,650	22,470	-0.8
<b>Total budgetary expenses</b>	18,007	19,104	6.1	140,106	147,828	5.5

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	November		April to November	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	462	85	6,912	6,704
<b>Non-budgetary transactions</b>				
Capital investing activities	-247	-146	-1,289	-1,261
Other investing activities	-849	-125	-2,634	-1,178
Pension and other accounts	498	-24	3,384	5,118
Other activities				
Accounts payable, receivables, accruals and allowances	0	1,212	-7,227	-245
Foreign exchange activities	-207	-1,988	1,585	4,761
Amortization of tangible capital assets	252	197	2,038	1,619
Total other activities	45	-579	-3,604	6,135
<b>Total non-budgetary transactions</b>	-553	-874	-4,143	8,814
<b>Net financial source/requirement</b>	-91	-789	2,769	15,518

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	November		April to November	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Net financial source/requirement</b>	-91	-789	2,769	15,518
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	3,299	2,133	3,554	-1,255
Treasury bills	8,200	4,600	-3,700	-17,000
Canada Savings Bonds	-1,338	-1,457	-1,808	-1,910
Other	-3	-143	-1,133	-699
Total	10,158	5,133	-3,087	-20,864
Foreign currency borrowings	58	90	-3,964	-1,496
Total	10,216	5,223	-7,051	-22,360
Cross-currency swap revaluation	92	1,774	218	-2,586
Unamortized discounts on debt issues	-285	-173	-487	-170
Obligations related to capital leases	-13	34	-63	426
<b>Net change in financing activities</b>	10,010	6,858	-7,383	-24,690
<b>Change in cash balance</b>	9,919	6,069	-4,614	-9,172

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2007	November 30, 2007	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	106,511	103,135	-3,376
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	256,227	-1,255
Treasury bills	134,074	117,074	-17,000
Canada Savings Bonds	15,175	13,265	-1,910
Other	1,743	1,044	-699
Subtotal	408,474	387,610	-20,864
Payable in foreign currencies	10,372	8,876	-1,496
Cross-currency swap revaluation account	-1,091	-3,677	-2,586
Unamortized discounts and premiums on market debt	-6,659	-6,829	-170
Obligations related to capital leases	3,096	3,523	426
Total unamatured debt	414,192	389,503	-24,690
Pension and other accounts			
Public sector pensions	134,726	136,816	2,089
Other employee and veteran future benefits	45,123	46,696	1,572
Other pension and other accounts	5,211	6,668	1,457
Total pension and other accounts	185,060	190,180	5,118
Total interest-bearing debt	599,252	579,683	-19,570
<b>Total liabilities</b>	<b>705,763</b>	<b>682,818</b>	<b>-22,946</b>
<b>Financial assets</b>			
Cash and accounts receivable	92,586	80,285	-12,301
Foreign exchange accounts	44,178	39,417	-4,761
Loans, investments and advances (net of allowances)	45,094	46,272	1,178
<b>Total financial assets</b>	<b>181,858</b>	<b>165,975</b>	<b>-15,883</b>
<b>Net debt</b>	<b>523,905</b>	<b>516,843</b>	<b>-7,062</b>
<b>Non-financial assets</b>	<b>56,637</b>	<b>56,279</b>	<b>-358</b>
<b>Federal debt (accumulated deficit)</b>	<b>467,268</b>	<b>460,564</b>	<b>-6,704</b>

Note: Totals may not add due to rounding.

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January 2008



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2007: budgetary surplus of \$2.7 billion

There was a budgetary surplus of \$2.7 billion in December 2007, compared to a surplus of \$1.3 billion in December 2006. Budgetary revenues were up \$3.1 billion, or 16.1 per cent, driven by growth in income tax and goods and services tax (GST) revenues. Program expenses increased by \$1.9 billion, or 12.7 per cent, reflecting higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.2 billion.

### April to December 2007: budgetary surplus of \$9.4 billion

For the first nine months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$9.4 billion, up \$1.2 billion from the \$8.2-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by \$10.6 billion, or 6.4 per cent, reflecting gains across most revenue streams, particularly corporate income tax and other revenues. The results to date include personal income tax relief measures for 2007 introduced in the October 2007 Economic Statement. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600, both effective January 1, 2007. Program expenses were up \$9.8 billion, or 7.4 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.4 billion, reflecting reductions in market debt.

An update of the 2007–08 budgetary surplus projection is provided in Budget 2008.

## December 2007

There was a budgetary surplus of \$2.7 billion in December 2007, compared to a \$1.3-billion surplus in December 2006.

Budgetary revenues increased by \$3.1 billion, or 16.1 per cent, to \$22.3 billion.

- Personal income tax revenues increased by \$0.7 billion, or 6.6 per cent, as the tax relief introduced in the October 2007 Economic Statement was more than offset by growth in employment and wages and salaries and by the inclusion of one more large processing day for payroll deductions in December 2007 than in December 2006.

- Corporate income tax revenues rose by \$1.3 billion, or 39.2 per cent, boosted by year-end settlement payments for the 2007 tax year.
- Other income tax revenues—withholdings from non-residents—rose by \$0.2 billion, or 49.0 per cent.
- Excise taxes and duties were up \$0.5 billion, or 18.9 per cent. The increase was largely due to a \$0.4-billion, or 24.0-per-cent, increase in GST revenues, reflecting strong domestic collections. Customs import duties increased by \$29 million, sales and excise tax revenues by \$0.1 billion, and revenues from the Air Travellers Security Charge by \$8 million.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.



- Employment Insurance (EI) premium revenues were down 6.5 per cent, consistent with the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose by \$0.4 billion, or 24.7 per cent.

Program expenses in December 2007 were \$17.0 billion, up \$1.9 billion, or 12.7 per cent, from December 2006, reflecting higher transfer payments and operating expenses of departments and agencies.

Transfer payments were up \$1.4 billion, or 14.1 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, increased by \$0.1 billion, or 2.3 per cent. Elderly benefits increased by 4.8 per cent while EI benefits decreased by 2.3 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), increased by 1.1 per cent.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (the Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.2 billion, or 4.5 per cent, reflecting Budget 2007 measures.

- Subsidies and other transfers increased by \$1.1 billion, or 69.0 per cent. This mainly reflects an increase in payments to provinces related to the historic investment in infrastructure announced in Budget 2007 and to provincial offshore revenue funds, as well as the announced \$0.6 billion for new agriculture programs under *Growing Forward*, the new policy framework for Canada's agriculture, agri-food and agri-based products industry.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses rose by \$0.5 billion, or 10.0 per cent.

Public debt charges decreased by \$0.2 billion.

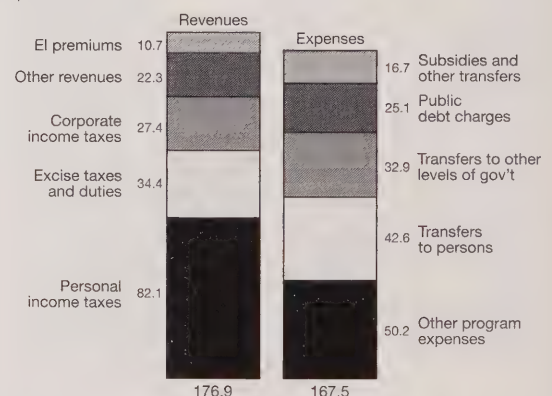
## April to December 2007

Through the first nine months of the 2007–08 fiscal year, there was a budgetary surplus of \$9.4 billion, up \$1.2 billion from the \$8.2-billion surplus reported in the same period of 2006–07.

### Revenues and expenses

(April to December 2007)

\$ billions



Budgetary revenues increased by \$10.6 billion, or 6.4 per cent, to \$176.9 billion.

- Personal income tax revenues increased by \$0.8 billion, or 1.0 per cent, reflecting \$2.9 billion in tax relief measures retroactive to January 1, 2007 announced in the October 2007 Economic Statement.
- Corporate income tax revenues were up \$4.9 billion, or 21.9 per cent. Part of the exceptionally strong growth to date reflects tax remittance patterns last fiscal year, when many corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made significant settlement payments in February and March 2007. As such, the year-over-year growth in corporate receipts is expected to slow in the final months of this fiscal year.
- Other income tax revenues rose by \$0.3 billion, or 8.1 per cent.
- Excise taxes and duties increased by \$1.3 billion, or 4.1 per cent. GST revenues increased by \$0.9 billion, or 3.7 per cent. Customs import duties increased by \$0.2 billion, sales and excise tax revenues by \$0.3 billion, and revenues from the Air Travellers Security Charge by \$23 million.

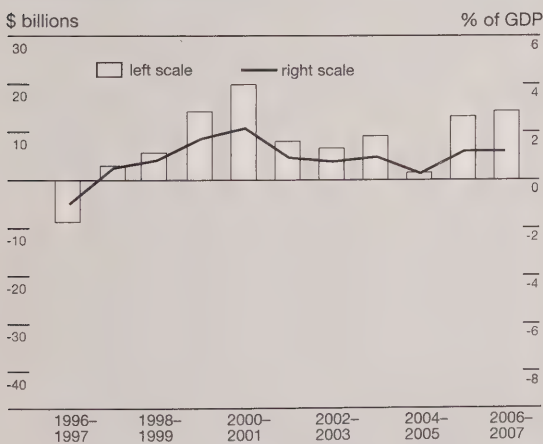
- EI premium revenues were down \$0.1 billion, or 0.9 per cent, reflecting the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.
- Other revenues rose by \$3.3 billion, or 22.2 per cent, boosted by a gain from the sale and leaseback of seven federal office properties.

Program expenses for April to December 2007 were \$142.4 billion, up \$9.8 billion or 7.4 per cent from the same period of 2006, reflecting an increase in transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments increased by \$6.8 billion, or 8.0 per cent.

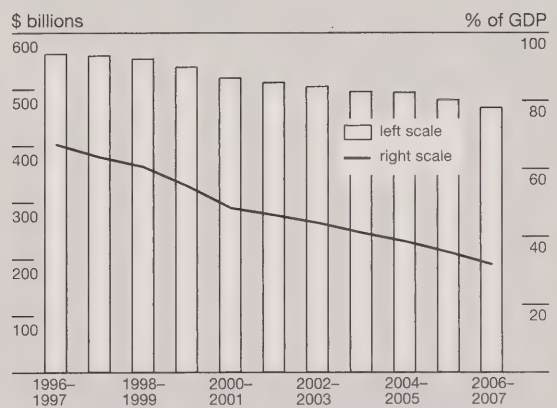
- Major transfers to persons were up \$1.8 billion, or 4.4 per cent. Elderly benefits increased by 4.2 per cent and EI benefits by 1.8 per cent. Children's benefits were up \$0.7 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



- Major transfers to other levels of government were up \$2.5 billion, or 8.3 per cent, reflecting legislated growth in the Canada Health Transfer, as well as increases to the Canada Social Transfer and Equalization introduced in Budget 2007 as part of the Government's package to restore fiscal balance in Canada.
- Subsidies and other transfers were up \$2.5 billion, or 18.0 per cent, mainly reflecting increases in payments related to the historic investment in infrastructure announced in Budget 2007 and to provincial offshore revenue funds.

Other program expenses increased by \$3.0 billion, or 6.3 per cent.

Public debt charges decreased by \$0.4 billion, or 1.4 per cent, reflecting lower unmatured debt levels.

## **Financial source of \$16.3 billion for April to December 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$9.4 billion and a source of \$6.9 billion from non-budgetary transactions, there was a financial source of \$16.3 billion for April to December 2007, compared to a financial source of \$4.0 billion for the same period of 2006. The increase in the financial source is due in part to the appreciation of the Canadian dollar in 2007. It also reflects the personal income tax relief measures introduced in the October 2007 Economic Statement, which are retroactive to January 1, 2007, but which will primarily affect cash balances when individuals file their income tax returns for 2007.

## **Net financing activities down \$31.9 billion**

The Government used this financial source of \$16.3 billion and a reduction in its cash balances of \$15.7 billion to reduce its market debt by \$31.9 billion by the end of December 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of December 2007 stood at \$5.6 billion, \$1.5 billion above their level at the end of December 2006.

Table 1  
Summary statement of transactions

	December		April to December	
	2006	2007	2006–07	2007–08
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	19,246	22,346	166,264	176,878
Expenses				
Program expenses	-15,127	-17,041	-132,583	-142,399
Public debt charges	-2,827	-2,640	-25,477	-25,110
Budgetary balance (deficit/surplus)	1,292	2,665	8,204	9,369
<b>Non-budgetary transactions</b>	-65	-1,899	-4,208	6,915
<b>Financial source/requirement</b>	1,227	766	3,996	16,284
<b>Net change in financing activities</b>	-10,504	-7,246	-17,887	-31,936
<b>Net change in cash balances</b>	-9,277	-6,480	-13,891	-15,652
<b>Cash balance at end of period</b>			4,067	5,556

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2  
Budgetary revenues

	December			April to December		
	2006	2007	Change	2006–07	2007–08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	10,163	10,836	6.6	81,244	82,065	1.0
Corporate income tax	3,325	4,629	39.2	22,450	27,375	21.9
Other income tax	402	599	49.0	3,859	4,171	8.1
Total income tax	13,890	16,064	15.7	107,553	113,611	5.6
Excise taxes and duties						
Goods and services tax	1,841	2,283	24.0	22,877	23,732	3.7
Customs import duties	251	280	11.6	2,680	2,877	7.4
Sales and excise taxes	778	847	8.9	7,179	7,452	3.8
Air Travellers Security Charge	25	33	32.0	268	291	8.6
Total excise taxes and duties	2,895	3,443	18.9	33,004	34,352	4.1
Total tax revenues	16,785	19,507	16.2	140,557	147,963	5.3
<b>Employment Insurance premiums</b>	739	691	-6.5	10,840	10,742	-0.9
<b>Other revenues</b>	1,722	2,148	24.7	14,867	18,173	22.2
<b>Total budgetary revenues</b>	19,246	22,346	16.1	166,264	176,878	6.4

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	December			April to December		
	2006	2007	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,566	2,690	4.8	22,745	23,697	4.2
Employment Insurance benefits	1,130	1,104	-2.3	9,765	9,939	1.8
Children's benefits	985	996	1.1	8,304	8,958	7.9
Total	4,681	4,790	2.3	40,814	42,594	4.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,794	6.9	15,105	16,071	6.4
Canada Social Transfer	708	834	17.8	6,375	7,347	15.2
Total	2,386	2,628	10.1	21,480	23,418	9.0
Fiscal transfers	1,125	1,265	12.4	9,955	11,017	10.7
Canada's cities and communities	204	0	-100.0	548	722	31.8
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-226	-248	9.7	-2,281	-2,281	0.0
Total	3,489	3,645	4.5	30,352	32,876	8.3
Subsidies and other transfers						
Agriculture and Agri-Food	330	803	143.3	1,701	1,706	0.3
Foreign Affairs and International Trade	265	263	-0.8	1,576	1,487	-5.6
Health	138	111	-19.6	1,399	1,478	5.6
Human Resources and Social Development	108	130	20.4	1,186	1,226	3.4
Indian Affairs and Northern Development	451	431	-4.4	3,556	3,691	3.8
Industry	266	244	-8.3	1,518	1,480	-2.5
Other	60	752	1,153.3	3,235	5,647	74.6
Total	1,618	2,734	69.0	14,171	16,715	18.0
Total transfer payments	9,788	11,169	14.1	85,337	92,185	8.0
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	56	59	5.4	946	927	-2.0
Canada Mortgage and Housing Corporation	155	177	14.2	1,510	1,473	-2.5
Other	360	450	25.0	2,578	3,037	17.8
Total	571	686	20.1	5,034	5,437	8.0
Defence	1,375	1,505	9.5	11,627	12,845	10.5
All other departments and agencies	3,393	3,681	8.5	30,585	31,932	4.4
Total other program expenses	5,339	5,872	10.0	47,246	50,214	6.3
<b>Total program expenses</b>	15,127	17,041	12.7	132,583	142,399	7.4
<b>Public debt charges</b>	2,827	2,640	-6.6	25,477	25,110	-1.4
<b>Total budgetary expenses</b>	17,954	19,681	9.6	158,060	167,509	6.0

Note: Totals may not add due to rounding.



Table 4

## The budgetary balance and financial source/requirement

	December		April to December	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,292	2,665	8,204	9,369
<b>Non-budgetary transactions</b>				
Capital investing activities	-283	-264	-1,572	-1,525
Other investing activities	1,680	-395	-954	-1,573
Pension and other accounts	469	265	3,853	5,383
Other activities				
Accounts payable, receivables, accruals and allowances	-1,771	-1,502	-8,998	-1,747
Foreign exchange activities	-380	16	1,205	4,777
Amortization of tangible capital assets	220	-19	2,258	1,600
Total other activities	-1,931	-1,505	-5,535	4,630
<b>Total non-budgetary transactions</b>	-65	-1,899	-4,208	6,915
<b>Net financial source/requirement</b>	1,227	766	3,996	16,284

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	December		April to December	
	2006	2007	2006-07	2007-08
	(\$ millions)			
<b>Net financial source/requirement</b>	1,227	766	3,996	16,284
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-8,642	-6,203	-5,088	-7,458
Treasury bills	-3,200	-1,300	-6,900	-18,300
Canada Savings Bonds	-69	-28	-1,877	-1,938
Other	-27	0	-1,160	-699
Total	-11,938	-7,531	-15,025	-28,395
Foreign currency borrowings	26	399	-3,938	-1,097
Total	-11,912	-7,132	-18,963	-29,492
Cross-currency swap revaluation	1,117	-303	1,335	-2,889
Unamortized discounts on debt issues	297	189	-190	19
Obligations related to capital leases	-6	0	-69	426
<b>Net change in financing activities</b>	-10,504	-7,246	-17,887	-31,936
<b>Change in cash balance</b>	-9,277	-6,480	-13,891	-15,652

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2007	December 31, 2007	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	106,511	101,484	-5,027
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	250,024	-7,458
Treasury bills	134,074	115,774	-18,300
Canada Savings Bonds	15,175	13,237	-1,938
Other	1,743	1,044	-699
Subtotal	408,474	380,078	-28,395
Payable in foreign currencies	10,372	9,275	-1,097
Cross-currency swap revaluation account	-1,091	-3,980	-2,889
Unamortized discounts and premiums on market debt	-6,659	-6,640	19
Obligations related to capital leases	3,096	3,523	426
Total unmatured debt	414,192	382,256	-31,936
Pension and other accounts			
Public sector pensions	134,726	137,069	2,343
Other employee and veteran future benefits	45,123	46,892	1,769
Other pension and other accounts	5,211	6,482	1,271
Total pension and other accounts	185,060	190,443	5,383
Total interest-bearing debt	599,252	572,700	-26,553
<b>Total liabilities</b>	<b>705,763</b>	<b>674,183</b>	<b>-31,580</b>
<b>Financial assets</b>			
Cash and accounts receivable	92,586	73,656	-18,930
Foreign exchange accounts	44,178	39,401	-4,777
Loans, investments and advances (net of allowances)	45,094	46,667	1,573
<b>Total financial assets</b>	<b>181,858</b>	<b>159,724</b>	<b>-22,134</b>
<b>Net debt</b>	<b>523,905</b>	<b>514,459</b>	<b>-9,446</b>
<b>Non-financial assets</b>	<b>56,637</b>	<b>56,562</b>	<b>-75</b>
<b>Federal debt (accumulated deficit)</b>	<b>467,268</b>	<b>457,897</b>	<b>-9,369</b>

Note: Totals may not add due to rounding.

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*Ce document est également offert en français.*

February 2008

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2008: budgetary surplus of \$0.6 billion

There was a budgetary surplus of \$0.6 billion in January 2008, compared to a surplus of \$2.4 billion in January 2007. Budgetary revenues were down \$0.9 billion, or 3.9 per cent, due in part to lower personal income tax and goods and services tax (GST) revenues. Program expenses increased by \$1.0 billion, or 5.6 per cent, reflecting higher transfer payments and operating expenses of departments and agencies. Public debt charges were down slightly.

### April 2007 to January 2008: budgetary surplus of \$10.0 billion

For the first 10 months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$10.0 billion, down \$0.6 billion from the \$10.6-billion surplus reported in the same period of 2006–07. The results to date reflect the impact of personal income tax relief measures introduced in the October 2007 Economic Statement. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600, both retroactive to January 1, 2007. Budgetary revenues increased by \$9.7 billion, or 5.2 per cent, reflecting gains across most revenue streams, particularly corporate income tax and other revenues. Program expenses were up \$10.8 billion, or 7.2 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.4 billion, reflecting reductions in market debt.

### January 2008

There was a budgetary surplus of \$0.6 billion in January 2008, compared to a \$2.4-billion surplus in January 2007.

Budgetary revenues fell \$0.9 billion, or 3.9 per cent, to \$21.5 billion.

- Personal income tax revenues fell \$0.6 billion, or 6.2 per cent, as the tax relief introduced in the October 2007 Economic Statement led to a reduction in collections.
- Corporate income tax revenues rose \$0.6 billion, or 20.5 per cent.
- Other income tax revenues—withholdings from non-residents—fell \$0.2 billion, or 19.5 per cent.

- Excise taxes and duties were down \$1.0 billion, or 21.4 per cent, largely due to lower GST and sales and excise tax revenues. GST revenues fell \$0.5 billion, or 16.5 per cent, as a result of the 1-percentage-point reduction in the GST rate to 5 per cent effective January 1, 2008. Sales and excise tax revenues decreased by \$0.6 billion, or 43.7 per cent, due to a temporary gain in revenues last year resulting from the one-time charge on duty deposit refunds under the Canada-United States Softwood Lumber Agreement. Customs import duties increased by \$0.1 billion and revenues from the Air Travellers Security Charge were \$2 million higher.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.





# The Fiscal Monitor

- Employment Insurance (EI) premium revenues were down 0.7 per cent, consistent with the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings, effective January 1, 2008.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.4 billion, or 21.9 per cent.

Program expenses in January 2008 were \$18.1 billion, up \$1.0 billion, or 5.6 per cent, from January 2007, reflecting higher transfer payments and operating expenses of departments and agencies.

Transfer payments were up \$0.3 billion, or 2.7 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.2 billion, or 3.3 per cent. Elderly benefits increased by 7.4 per cent while EI benefits decreased 0.8 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were down slightly.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.4 billion, or 11.5 per cent, reflecting Budget 2007 measures.
- Subsidies and other transfers decreased by \$0.2 billion, or 7.8 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and

also reflect the ongoing assessment of the Government's liabilities. These expenses rose by \$0.6 billion, or 11.6 per cent.

Public debt charges were down slightly.

## April 2007 to January 2008

Through the first 10 months of the 2007–08 fiscal year, there was a budgetary surplus of \$10.0 billion, down \$0.6 billion from the \$10.6-billion surplus reported during the same period of 2006–07.

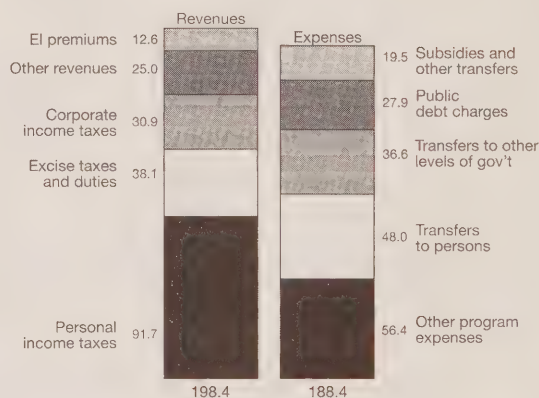
Budgetary revenues increased by \$9.7 billion, or 5.2 per cent, to \$198.4 billion.

- Personal income tax revenues increased by only \$0.2 billion, or 0.2 per cent, reflecting \$3.1 billion in tax relief measures announced in the October 2007 Economic Statement.
- Corporate income tax revenues were up \$5.5 billion, or 21.8 per cent. Part of the exceptionally strong growth to date reflects tax remittance patterns last fiscal year, when many corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made significant settlement payments in February and March 2007. As such, the year-over-year growth in corporate receipts is expected to slow in the final months of this fiscal year.

## Revenues and expenses

(April 2007 to January 2008)

\$ billions



- Other income tax revenues rose \$0.2 billion, or 3.2 per cent.
- Excise taxes and duties increased by \$0.3 billion, or 0.9 per cent. GST revenues increased by \$0.3 billion, or 1.3 per cent. Customs import duties increased by \$0.3 billion, sales and excise tax revenues fell by \$0.3 billion, and revenues from the Air Travellers Security Charge increased by \$25 million.
- EI premium revenues were down \$0.1 billion, or 0.9 per cent, reflecting the declines in the premium rate to \$1.80 per \$100 of insurable earnings effective January 1, 2007, and to \$1.73 effective January 1, 2008.
- Other revenues rose \$3.7 billion, or 22.2 per cent, boosted by a gain from the sale and leaseback of seven federal office properties.

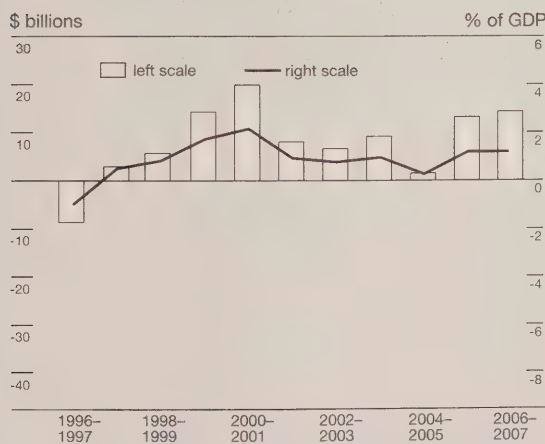
Program expenses for April 2007 to January 2008 were \$160.5 billion, up \$10.8 billion, or 7.2 per cent, from the same period the previous year, reflecting higher transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments increased by \$7.2 billion, or 7.4 per cent.

- Major transfers to persons increased by \$2.0 billion, or 4.2 per cent. Elderly benefits increased by 4.5 per cent and EI benefits by 1.4 per cent. Children's benefits were up \$0.6 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.
- Major transfers to other levels of government were up \$2.9 billion, or 8.6 per cent, reflecting legislated growth in the Canada Health Transfer, as well as increases to the Canada Social Transfer and Equalization introduced in Budget 2007 as part of the Government's package to restore fiscal balance in Canada.
- Subsidies and other transfers were up \$2.3 billion, or 13.4 per cent, mainly reflecting increases in payments related to the historic investment in infrastructure announced in Budget 2007 and higher transfers to Newfoundland and Labrador and Nova Scotia under the Offshore Accords.

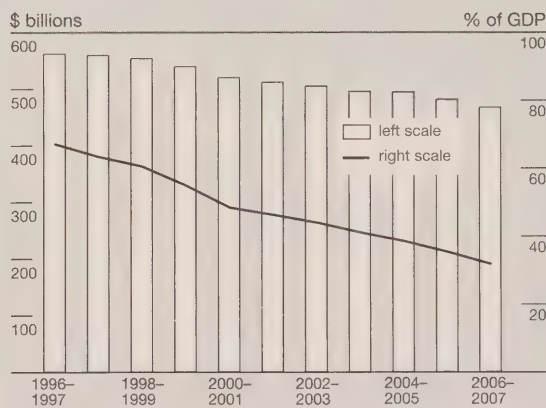


## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Other program expenses increased by \$3.6 billion, or 6.8 per cent.

Public debt charges decreased by \$0.4 billion, or 1.4 per cent, reflecting lower unmatured debt levels.

## **Financial source of \$14.9 billion for April 2007 to January 2008**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$10.0 billion and a source of \$5.0 billion from non-budgetary transactions, there was a financial source of \$14.9 billion for April 2007 to January 2008, compared to a financial source of \$6.3 billion in the same period of 2006–07. The increase in the financial source is due in part to the appreciation of the Canadian dollar in 2007. It also reflects the personal income tax relief measures introduced in the October 2007 Economic Statement, which are retroactive to January 1, 2007, but which will primarily affect cash balances when individuals file their income tax returns for 2007.

## **Net financing activities down \$32.1 billion**

The Government used this financial source of \$14.9 billion and a reduction in its cash balances of \$17.2 billion to reduce its market debt by \$32.1 billion by the end of January 2008. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of January 2008 stood at \$4.0 billion, \$0.4 billion above their level at the end of January 2007.



Table 1

## Summary statement of transactions

	January		April to January	
	2007	2008	2006-07	2007-08
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	22,360	21,483	188,624	198,363
Expenses				
Program expenses	-17,128	-18,089	-149,711	-160,488
Public debt charges	-2,835	-2,802	-28,312	-27,912
Budgetary balance (deficit/surplus)	2,397	592	10,601	9,963
<b>Non-budgetary transactions</b>	-46	-1,930	-4,254	4,985
<b>Financial source/requirement</b>	2,351	-1,338	6,347	14,948
<b>Net change in financing activities</b>	-2,838	-193	-20,725	-32,129
<b>Net change in cash balances</b>	-487	-1,531	-14,378	-17,181
<b>Cash balance at end of period</b>			3,578	4,023

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	January			April to January		
	2007	2008	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	10,257	9,617	-6.2	91,501	91,682	0.2
Corporate income tax	2,911	3,507	20.5	25,361	30,882	21.8
Other income tax	822	662	-19.5	4,681	4,833	3.2
Total income tax	13,990	13,786	-1.5	121,543	127,397	4.8
Excise taxes and duties						
Goods and services tax	3,174	2,651	-16.5	26,051	26,383	1.3
Customs import duties	277	352	27.1	2,957	3,229	9.2
Sales and excise taxes	1,326	746	-43.7	8,505	8,198	-3.6
Air Travellers Security Charge	27	29	7.4	295	320	8.5
Total excise taxes and duties	4,804	3,778	-21.4	37,808	38,130	0.9
Total tax revenues	18,794	17,564	-6.5	159,351	165,527	3.9
<b>Employment Insurance premiums</b>	1,894	1,880	-0.7	12,734	12,622	-0.9
<b>Other revenues</b>	1,672	2,039	21.9	16,539	20,214	22.2
<b>Total budgetary revenues</b>	22,360	21,483	-3.9	188,624	198,363	5.2

Note: Totals may not add due to rounding.

# The Fiscal Monitor

Table 3

## Budgetary expenses

	January			April to January		
	2007	2008	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,590	2,782	7.4	25,335	26,479	4.5
Employment Insurance benefits	1,623	1,610	-0.8	11,388	11,549	1.4
Children's benefits	999	994	-0.5	9,303	9,952	7.0
Total	5,212	5,386	3.3	46,026	47,980	4.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,798	7.2	16,783	17,869	6.5
Canada Social Transfer	708	833	17.7	7,083	8,180	15.5
Total	2,386	2,631	10.3	23,866	26,049	9.1
Fiscal transfers	1,140	1,281	12.4	11,093	12,298	10.9
Canada's cities and communities	0	15	n/a	548	736	34.3
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-227	-249	9.7	-2,508	-2,530	0.9
Total	3,299	3,678	11.5	33,649	36,553	8.6
Subsidies and other transfers						
Agriculture and Agri-Food	556	216	-61.2	2,257	1,922	-14.8
Foreign Affairs and International Trade	834	595	-28.7	2,410	2,082	-13.6
Health	204	232	13.7	1,603	1,710	6.7
Human Resources and Social Development	197	278	41.1	1,383	1,504	8.7
Indian Affairs and Northern Development	373	369	-1.1	3,929	4,060	3.3
Industry	147	110	-25.2	1,665	1,590	-4.5
Other	749	1,021	36.3	3,986	6,669	67.3
Total	3,060	2,821	-7.8	17,233	19,537	13.4
Total transfer payments	11,571	11,885	2.7	96,908	104,070	7.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	96	59	-38.5	1,042	986	-5.4
Canada Mortgage and Housing Corporation	205	211	2.9	1,715	1,684	-1.8
Other	294	232	-21.1	2,872	3,269	13.8
Total	595	502	-15.6	5,629	5,939	5.5
Defence	1,422	1,603	12.7	13,049	14,448	10.7
All other departments and agencies	3,540	4,099	15.8	34,125	36,031	5.6
Total other program expenses	5,557	6,204	11.6	52,803	56,418	6.8
<b>Total program expenses</b>	17,128	18,089	5.6	149,711	160,488	7.2
<b>Public debt charges</b>	2,835	2,802	-1.2	28,312	27,912	-1.4
<b>Total budgetary expenses</b>	19,963	20,891	4.6	178,023	188,400	5.8

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	January		April to January	
	2007	2008	2006-07	2007-08
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	2,397	592	10,601	9,963
<b>Non-budgetary transactions</b>				
Capital investing activities	-177	-303	-1,749	-1,828
Other investing activities	-20	-1,506	-974	-3,079
Pension and other accounts	-157	-1,348	3,696	4,035
Other activities				
Accounts payable, receivables, accruals and allowances	1,589	2,096	-7,409	349
Foreign exchange activities	-1,487	-1,157	-282	3,620
Amortization of tangible capital assets	206	288	2,464	1,888
Total other activities	308	1,227	-5,227	5,857
<b>Total non-budgetary transactions</b>	-46	-1,930	-4,254	4,985
<b>Net financial source/requirement</b>	2,351	-1,338	6,347	14,948

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	January		April to January	
	2007	2008	2006-07	2007-08
	(\$ millions)			
<b>Net financial source/requirement</b>	2,351	-1,338	6,347	14,948
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,120	168	-2,968	-7,290
Treasury bills	-5,700	-1,500	-12,600	-19,800
Canada Savings Bonds	-74	-19	-1,951	-1,957
Other	0	0	-1,160	-699
Total	-3,654	-1,351	-18,679	-29,746
Foreign currency borrowings	507	222	-3,431	-875
Total	-3,147	-1,129	-22,110	-30,621
Cross-currency swap revaluation	96	656	1,431	-2,233
Unamortized discounts on debt issues	219	297	29	316
Obligations related to capital leases	-6	-17	-75	409
<b>Net change in financing activities</b>	-2,838	-193	-20,725	-32,129
<b>Change in cash balance</b>	-487	-1,531	-14,378	-17,181

Note: Totals may not add due to rounding.



Table 6

## Condensed statement of assets and liabilities

	March 31, 2007	January 31, 2008	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	106,511	104,731	-1,780
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	250,192	-7,290
Treasury bills	134,074	114,274	-19,800
Canada Savings Bonds	15,175	13,219	-1,957
Other	1,743	1,044	-699
Subtotal	408,474	378,728	-29,746
Payable in foreign currencies	10,372	9,497	-875
Cross-currency swap revaluation account	-1,091	-3,324	-2,233
Unamortized discounts and premiums on market debt	-6,659	-6,343	316
Obligations related to capital leases	3,096	3,505	409
Total unmaturred debt	414,192	382,063	-32,129
Pension and other accounts			
Public sector pensions	134,726	136,260	1,534
Other employee and veteran future benefits	45,123	47,089	1,966
Other pension and other accounts	5,211	5,746	535
Total pension and other accounts	185,060	189,094	4,035
Total interest-bearing debt	599,252	571,158	-28,095
<b>Total liabilities</b>	<b>705,763</b>	<b>675,889</b>	<b>-29,874</b>
<b>Financial assets</b>			
Cash and accounts receivable	92,586	73,275	-19,311
Foreign exchange accounts	44,178	40,558	-3,620
Loans, investments and advances (net of allowances)	45,094	48,173	3,079
<b>Total financial assets</b>	<b>181,858</b>	<b>162,006</b>	<b>-19,852</b>
<b>Net debt</b>	<b>523,905</b>	<b>513,883</b>	<b>-10,022</b>
<b>Non-financial assets</b>	<b>56,637</b>	<b>56,577</b>	<b>-60</b>
<b>Federal debt (accumulated deficit)</b>	<b>467,268</b>	<b>457,306</b>	<b>-9,963</b>

Note: Totals may not add due to rounding.

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